

MANUEL HENSMANS

# A Republican Settlement Theory of the Firm

Applied to retail banks  
in England and the Netherlands (1830-2007)



**A REPUBLICAN SETTLEMENT THEORY OF THE FIRM**

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(1830-2007)**



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**(1830-2007)**

Bedrijfssucces, democratisering, en republikeinse principes

Een theorie toegepast op Engelse en Nederlandse retailbanken (1830-2007)

**Thesis**

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**by**  
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## PREFACE

While ten years of PhD-writing may hint at a different inclination, I shall keep my word of thanks in line with the saying “less is more”.

Genetics customarily beats politics. May I congratulate my family on their endless reserves of support: gracias, dank je, merci!

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*March 2010*  
*Manuel Hensmans*

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# EXECUTIVE SUMMARY

## Firms' success: ability to contribute to democratic settlements

In the bulk of contemporary business literature, and much of Western popular opinion, the relation between firms' success and participation in a democratisation process is implicitly assumed. It has become relatively commonsensical that entrepreneurship contributes to the democratisation of society. But the many corporate governance and industrial democracy debates throughout the 19<sup>th</sup>, 20<sup>th</sup> and early 21<sup>st</sup> centuries also testify to a more general point: in the Western hemisphere, firms are periodically evaluated in terms of democratic standards.

The assumption that entrepreneurship plays an important part in democratisation dynamics notwithstanding, no theory exists either of the precise role of firms in these dynamics, or of the impact of various types of democratic involvement on firms' success. Such a theory would elucidate how firms' positioning in relation to projects of economic growth, good citizenship and State development impacts on their long-term success.

In this PhD-manuscript I argue that the success of a firm is not only affected by the types of democratic involvement but in fact depends on the firms' capacity to take a leading role in democratisation dynamics. In particular, firms are judged on their ability to contribute to settlements<sup>1</sup> between three rivalling dynamics of democratisation: firstly, economic versus political versus civic democratisation; secondly, minority versus consensual democratisation; and thirdly, territorial versus personality-based democratisation.

After careful analysis of the strategies followed by commercial and mutual banks in the Netherlands and England from the 19<sup>th</sup> century to 2007, I conclude that, in general<sup>2</sup>, firms' success depends on six strategic abilities – conducive to a settlement between rivalling dynamics of democratisation:

1. *Fulfil core customers' social mobility aspirations.*
2. *Cater to customers of different social classes*
3. *Make State policy on economic citizenship by "fait accompli"*
4. *Translate existing State policy on economic citizenship in services & products*
5. *Become a champion of national character*
6. *Become a champion of the national economic interest*

The above strategic abilities to contribute to democratic settlements have to be considered within an even larger geopolitical and historical context: that of firms operating in nation-states, and nation-state leaders steering democratisation dynamics according to principles most likely to provide them with both historical continuity and a geopolitical advantage.

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<sup>1</sup> A settlement is the compromise that institutes a truce between supporters of rivalling dynamics and traditions of democratisation.

<sup>2</sup> Obviously, when generalising findings about banks to the entire population of firms, one needs to be mindful of the special national and geopolitical role of the banking sector.

## Historical grounding of democratic settlements in republican principles

The main driver of the emergence of a Western system of democratisation of projects of economic growth, good citizenship and State development was the organisation of incipient nation-states around a set of republican principles. Three republican principles – the flag of which was waved by as varied entities as the Dutch Republic, France, England and the United States – revolutionised geopolitical competition. A first principle is that no national actor, group or interest should be able to structurally dominate any other. In other words, the possibility of democratic rivalry and dissent should be institutionalised. Secondly, democratic rivalry and dissent should be possible across the economic, political and civic domains, as economic wealth, a strong state and a vigorous civil society are equally important republican virtues. Finally, corruption of republican principles is always looming, which calls for a timely transformation of institutions and a continuous renewal of settlements.

In reality, settlements have always been imperfect vehicles of republican principles. The actual democratic standards upheld and levels of corruption tolerated in a nation-state settlement therefore have to be considered in relative terms, i.e. in comparison with the standards upheld and the corruption tolerated by geopolitical competitors. Geopolitical comparison leads to rankings of nation-states in terms of their ability to express popular sovereignty and exercise the right to self-determination.<sup>3</sup>

By proxy, firms' perceived ability to express popular sovereignty and exercise the right to self-determination is enabled and constrained by their affiliation(s) with particular nation-state settlements. It suffices to contrast the relative ease with which US banks and multinationals penetrated West European markets after WWII with the laborious quest of English and Dutch multinationals such as Unilever to preserve their historical governance systems and autonomy.

Given the critical link between firm and nation-state success, I advance seven propositions about the way nation-state leaders – not in the least those active in firms – go about in securing an advantageous geopolitical comparison; and in maximising the possibilities of self-determination and success for affiliated firms. These propositions are based on a historical comparison of settlements in the Netherlands (the Dutch Republic) and England since the 16<sup>th</sup> century; and to a lesser extent the United States and the European Union (including West Germany) since WWII.

The propositions are all centred on the finding that the most successful institutional arrangements in Dutch and English history – the Dutch and English “success models”<sup>4</sup> – reflect traditions of democratisation<sup>5</sup> and historical settlements incorporating republican principles:

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<sup>3</sup> Such rankings are performed by as varied agencies as governments, stock market investors, NGOs, the UN, credit rating agencies, companies, Freedom House, etc...

<sup>4</sup> A success model is that historical settlement that purportedly pushed a nation-state towards its geopolitical apogee.

<sup>5</sup> By traditions of democratisation I mean those historical modes of collaboration and representation which according to their supporters are best suited to solving issues of rivalry and mobility between established and outsider groups.

- P1: *Continued nation-state success requires the timely renewal of republican settlements and traditions of democratisation*
- P2: *The historical relation between a landmark settlement and a nation's Golden Age provides leaders with a simple success model*
- P3: *Home-grown traditions of democratisation have to be reinvented in a way sufficiently adapted to pre-eminent geopolitical traditions*
- P4: *Interpretations of pre-eminent geopolitical traditions and settlements have to appear sufficiently different from home-grown traditions to avoid confusion*
- P5a: *Reinvention is more effective when grounded in consciousness of a failed relation between state and nation*
- P5b: *Create supra-national settlements and traditions to counter the dominance of emerging foreign traditions*
- P6: *Successful reinvention requires consciousness of the pivotal role played by "happy accidents" in transforming landmark settlements into a success model*
- P7: *Up-and-coming leaders should go against the grain in periods of high modernity and reinvent expressive habits associated with old, bedevilled settlements*

## **Empirical choices**

In this PhD-manuscript, I relate the success of various types of retail financial firms in England and the Netherlands – building societies, co-operatives, commercial and savings banks – to their strategic involvement in democratisation movements in the period 1815 to 2007. Firms' success in this regard is measured in terms of two variables: total asset growth and market shares.

In both the democracy and varieties of capitalism literatures, the Netherlands and England are differentiated on the basis of their supposed liberal versus communitarian nature. In this PhD-manuscript, I set out to demonstrate that dynamics of democratisation in both countries are governed by similar republican principles. The real historical difference between England and the Netherlands is in the types of traditions of democratisation and historical settlements that have worked best.

The choice to study two types of firms, namely "mutual" firms such as co-operatives, building societies or savings banks on the one hand and commercial firms such as retail banks on the other hand, fits in with the same perspective. These two types of firms historically have been associated with respectively communitarian and liberal orthodoxy.

The choice for the financial sector and banks in particular is grounded in two considerations. First, monetary revolutions – most notably the servicing of public debt through a standardised currency – have been key drivers of dynamics of democratisation. The standardisation of money creates a level-playing field for the different entitlements and claims of established and outsider groups. In this regard, banks, as both creators and guardians of the circulation of standardised money forms, have always been of particular importance to processes of democratisation. At the same time, money has special properties that facilitate settlements between established and outsider groups. Money is a prime enabler of the different democratisation dynamics underlying republican settlements: minority and consensual democratisation; territorial and personality-based dynamics; across the economic, political and civic domains.

## **Methodology**

A methodology that particularly befits historical units of analysis such as historical settlements, success models and traditions of democratisation is analytical dualism. For one, the methodology allows for a way round one of the most important pitfalls of historical research, namely the tendency to favour either actor-driven (firm-driven) or structural (geopolitical nation-state) properties in historical explanations. As such, analytical dualism also meets a main condition for insightful comparative research; one needs to be able to identify key actions and structural turns in terms of varying degrees of strategic intentionality and *longue durée* – with special attention to the role of “accidents” in changing historical trajectories. Another condition is the ability to compare several sequences of structural and strategic changes – episodes – on a case by case basis across different contexts. Hence, I apply the methodology of analytical dualism to compare democratisation dynamics and the strategies of Dutch and English banks across three different episodes: the periods 1815-1930, 1931-1965, 1966-2007.

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# 1 INTRODUCTION AND MAIN ARGUMENT

## 1.1 Introduction

In this manuscript I argue that the success of a firm depends on its capacity to take a leading role in democratisation dynamics. In particular, firms are judged on their ability to contribute to settlements between rivaling outlooks on democratisation. Such settlements are conducive to the geopolitical success of the nation-state(s) to which the firm is affiliated, and with which it shares a critical relation.<sup>1</sup>

What do I mean by “democratisation” and “democracy”, concepts all too often laden with ideological connotations and intentions? Democratisation refers to the inclusion of outsider groups in projects of not only economic wealth, but also civilisation and State development. This inclusion is triggered by geopolitical opportunities and threats, outsiders’ desire to gain influence, and incumbents’ desire to guarantee a viable future for the nation-state they live in. Democratisation leads to a system of democracy once institutions are in place that allow rivaling groups to enact contrary claims: outsider minorities declaiming a lack of mobility and contestability, and established groups protecting their entitlements. In essence, democratisation and democracy are two sides of the same coin: the former expresses the dynamic aspect of group rivalry, the latter the institutional possibility of group rivalry. Both are relative terms, which only gain meaning within a geopolitical framework of competition between nation-states.<sup>2</sup>

Why is it interesting to posit a relation between participation in democratisation dynamics and firms’ success? In the bulk of contemporary business literature and much of Western popular opinion (the United States and Europe), this relation is implicitly assumed. It has, for instance, become relatively commonsensical that entrepreneurship contributes to the democratisation of society and that established practices which lead to unassailable barriers of entry generally lack legitimacy.<sup>3</sup> The many corporate governance and industrial democracy debates throughout the 19<sup>th</sup>, 20<sup>th</sup> and early 21<sup>st</sup> centuries, and the recent wave of corporate corruption scandals testify to a more general point: in the Western hemisphere, firms are periodically evaluated in terms of “democratic standards”. This evaluation is not only performed by political actors, but also by civic and economic organisations. Governmental bodies, stock exchange regulators, competing firms, consumer, environmental and many other lobby groups regularly scrutinise firms’ growth, be it in terms of standards of accountability, fair play, conflicts of interests, environmental sustainability, consumer or human rights, etc...

The assumption that entrepreneurship plays an important part in democratisation dynamics notwithstanding, no theory exists either of the precise role of firms in these dynamics, or of the impact of various types of democratic involvement on firms’ success. Such a theory would elucidate how firms’ positioning in relation to projects of economic growth, civilisation and State development impacts on their long-term success.

A particularly hot topic of debate is whether, in our “globalising” world, liberal-democratic or social-democratic arrangements would increase the odds of success of any firm, no matter what national origins it has. This question is often used in a self-explanatory, ideological way, i.e. to argue that one variety of democratic capitalism is superior to another – for instance the case of the superiority of Anglo-American liberal capitalism in recent decades. What is more, the question starts from empirically incorrect

assumptions. Historical perspective, i.e. going back between the past and present to make connections heretofore undiscovered, will reveal this. I develop the mentioned perspective in chapters 4 to 11, in which I compare the historical development of in England and the Netherlands<sup>4</sup>, nation-states of an allegedly liberal-democratic and social-democratic nature. These chapters will demonstrate that characterising institutional arrangements in England as liberal-utilitarian and in the Netherlands as social-communitarian means giving short shrift to more relevant historical foundations. The more accurate statement is that the most successful institutional arrangements in Dutch and English history – the Dutch and English “success models” – reflect traditions of democratisation and historical settlements incorporating republican principles.

What do I mean by traditions of democratisation, settlements, success models and republican principles? By traditions of democratisation I mean those historical modes of collaboration and representation which according to their supporters are best suited to solving issues of rivalry and mobility between established and outsider groups. A settlement is the compromise that institutes a truce between supporters of rivalling traditions of democratisation. A success model, on the other hand, is that historical settlement that purportedly pushed a nation-state towards its geopolitical apogee. Interestingly, irrespective of contextual differences and (partly invented) historical origins, Dutch and English success models reflect the same republican principles; principles that revolutionised Western geopolitical competition from the sixteenth century onwards. What republican principles am I referring to? A first principle is that no national actor, group or interest should be able to structurally dominate any other. In other words, the possibility of democratic rivalry and dissent should be institutionalised. Secondly, democratic rivalry and dissent should be possible across the economic, political and civic domains, as economic wealth, a strong state and a vigorous civil society are equally important republican virtues. Finally, corruption<sup>5</sup> of republican principles is always looming, which calls for a timely transformation of institutions and a continuous renewal of settlements.

Ample evidence of their greater historical prominence notwithstanding, republican settlements and traditions have rarely pulled their weight in contemporary writing on democratisation dynamics. One reason for this is that advocates of liberal-utilitarianism have reinvented and reclassified republican phenomena in essentially their own ideological terms (Burrow, 1988: 3). This applies to the republican settlements between English promoters of Whig and Tory traditions that emerged in the sixteenth and seventeenth centuries. Likewise, social-communitarianism has often been reified as the most continuous thread in Dutch history (e.g. Bax, 1988) – although some argue that Dutch political economy has been infused by a remarkable historical blend of social-communitarian and liberal-utilitarian elements (e.g. Jepperson, 2000; Poutsma and Braam, 2005). A closer look, however, reveals that the empirically more accurate continuity in Dutch history has long been provided by republican settlements between promoters of Regent and Orangist traditions (Israel, 1995, 2004).

Why would Dutch and English leaders go back to republican roots? Such settlements and traditions provided the earliest proven track record for their nation – a sense of continuity with the national successes of the past (e.g. Bendix, 1967; Shils, 1981). Also, these settlements and traditions incorporate a level of complex organisation that leaders were eager to build on and extend to previously excluded groups or fields of activity in their nations. No wonder that successive leaders were drawn to reinvent these settlements and traditions; it provided them with the simplest way to keep consolidating

domestic order and gain a competitive geopolitical vantage point. Obviously, a considerable part of these settlements and traditions have had to be reframed in terms of changing contexts, constituencies and grievances. As such, the original republican settlements and traditions to a significant extent are also the product of imaginative invention (Hobsbawm, 1983). Indeed, as we shall see in chapters 4 and 5, settlements and traditions are dynamic entities that have to be reframed to be meaningful in a contemporary context.

In sum, it is the capacity to renew democratic rivalries and come to republican settlements across economic, civic and political domains that determines nation-states' continuing success in face of changing geopolitical constellations; not whether a nation-state appears liberal-utilitarian or social-communitarian on the surface.<sup>6</sup> Of course, corruption of republican principles is the norm in reality. The actual execution of these principles should therefore always be considered in terms of geopolitical competition between nation-states. That is, in comparison with the competitive standards upheld in other nations.

Still, if republican principles are the ones that really count, why is rhetoric of the superiority of either liberal or social democracy rife? I have given one reason above. Another reason is that such a rhetorical strategy provides context-specific settlements and traditions with universal, "end of history" qualities. While geopolitically effective in the short to medium term, the strategy tends to weaken domestic possibilities of democratic rivalry; as has been the case with issues of financial regulation in the "liberal-democratic" US and UK since the 1970s, and the issue of immigration in the "social-democratic" European Union.

## **1.2 Outline of the chapter**

In the next section (1.3), I expound on the relation between democratisation and economic growth from different viewpoints. First (a), I discuss the ongoing debate in the democracy literature. Second (b), I discuss the ideal-type that has dominated geopolitical thinking about the relation between democratisation and economic growth during the last decades: the liberal democratic ideal type. Arguing that historical perspective can offer a more enduring viewpoint, I throw light on the role of incumbents and challengers and the institutionalisation of the possibility of rivalry and mobility as a precondition to a geopolitically viable form of Western capitalism (c). Finally, I maintain that one should distinguish between active and passive democratisation to understand how rivalries were settled and mobility was encouraged since early republican days (d).

Building on this distinction (1.4), I set out the three types of democratisation dynamics that Western leaders have had to deal with to ensure the success of their nation-states. Subsequently (1.5), I argue that a new theory of the firm is needed that allows for an ontological relation with the nation-state and geopolitical levels, and incorporates the preceding issues. I continue the chapter (1.6) by explaining why I made certain empirical and methodological choices in this manuscript. In particular, I clarify why I chose to make a comparative study of the democratisation strategies deployed by a variety of Dutch and English retail banks – building societies, co-operative, commercial and savings banks over the period 1870-2006. Finally (1.7), I present an overview of the structure of the entire manuscript, briefly discussing the content of each chapter.

### 1.3 What is the relation between democratisation and economic growth?

#### *a. Democracy literature*

According to Linz (1998), democracy distinguishes itself from its premodern predecessors by being based on a system of “government pro tempore”, i.e. a system of institutionalised time constraints on those in power. The strength of Western democratic modernity in this regard is that it allows for “multiple political forces [to] compete inside an institutional framework”. Outcomes never depend on a single controlling force, but rather on a “a system of decentralised strategic action in which knowledge is inescapably provincial” (Przeworsky, 1991: 11-12). An important guarantee of decentralisation is the system of universal suffrage, which entitles everyone with an equal political voice, regardless of class, party or civic group membership.

What does the existing academic literature on democracy and democratisation have to say about its relation with economic growth? Research on this question generally has been conducted at the institutional, nation-state level, and has resulted in three bodies of opinion. The first two groups, which I shall conveniently refer to as liberal-democrats and social-democrats, or liberal-utilitarians (e.g. Lipset, 1959, 1994; Olson, 1982) and social-communitarians (e.g. Hirst, 1994; Putnam, 1993), potentially see a virtuous impact of democratisation on economic growth. Liberal-utilitarians and social-communitarians, however, differ on what constitutes democratisation, and consequently also on what constitutes a sound relation between democratisation and economic growth. On the one hand, communitarians stress that democratisation comes about through the empowerment of local community traditions, culminating in a comprehensive system of direct democracy. One such element of direct democracy in particular, industrial democracy, provides a sound basis for economic growth (e.g. Pateman, 1970; Sandel, 1996)<sup>7</sup>. By default of industrial democracy, communitarians warn, the logic of the market will have a corrupting effect on community traditions, the very basis of sound growth. Liberal-utilitarians, on the contrary, see democratisation primarily as individual participation in the domain of the market, with no community restraints applying. From this viewpoint, sound economic growth simply is the most growth one can manage. Not surprisingly, liberal-utilitarians advocate a popular opinion<sup>8</sup> dominated by the universal ideal of autonomous individuals rather than particular community traditions.

Liberal-utilitarians and social-communitarians are at odds about what role the State, and more generally politics, should play in maintaining a sound relation between democratisation and economic growth. For communitarians, every area of life is political in that all areas should be aimed at serving the public good. Regarding the State, there are two versions of communitarianism. The version which propagates Statism (e.g. Luckacs, 1988), i.e. the coming together of community traditions into the meta-community of the State, has been in secular decline since the 1980s, and certainly since the demise of the USSR. According to the dominant social-communitarian version, on the other hand, State and industrial democracy are but two manifestations of direct democracy, at a par with other community traditions fostered through for instance the family or religion<sup>9</sup> (e.g. Walzer, 1983). While communitarians maintain that the public-private division between the State, civil society and economic organisations is false, liberal-utilitarians argue quite the opposite. They maintain that politics should remain a neutral and minimal force and

that the political promotion of particular community traditions has a profoundly corrupting influence on economic growth. Consequently, they support a strict public-private separation between on the one hand, the State, and, on the other hand, civil society and economic organisation. As one guarantee against “communitarian corruption”, liberal-utilitarians propagate the centrality of a system of private property rights guaranteed by formal institutions such as the law and parliamentary control (e.g. North and Weingast, 1989)<sup>10</sup>. Furthermore, liberal-utilitarians are in favour of a system of universal suffrage. That is because this system, which is based on the ideal of autonomous individuals, has proven to be most favourable to approximating the model of efficient economic exchange presented in neoclassical economics (North, 1990: 51).

Liberal and communitarian analyses often take the history of Western democratisation and economic growth as a model for developing countries. In doing that, they focus on the historical episodes most prone to validating their theoretical generalisations. With regards to the most recent episode, for instance, Francis Fukuyama (1992) has gone as far as to proclaim the “end of history” and the universal superiority of US-style democratic capitalism in the world<sup>11</sup>. Colin Crouch (2004), on the other hand, decries the anti-democratic side of US-style capitalism which he claims is threatening to throw European social democracies back to feudal times<sup>12</sup>. He claims that the spread of liberal capitalism from the 1980s onwards is destroying the “community traditions” that typified European polities for much of the twentieth century, by making politics subservient to the will of a self-selecting capitalistic elite.

A third group of academics not necessarily sees a clear historical relation between democratisation and economic growth. So, Ferguson (2001) stresses that the link between “political freedom” and “economic wealth” championed by liberal-utilitarians often does not bear out in practice. Also, against social-communitarianism, he agrees with Barro (1996) that, at the most, one can plot an inverted U relation between democratisation and economic growth. While democratisation initially is good for growth, it soon thereafter turns out to have a negative influence. The explanation Barro gives is that a sound relation between democratisation and economic growth requires a measure of stability and incrementalism which the early enfranchisement of local communities in the State apparatus can actually preclude. Przeworski (2000: 211), finally, notes that, while the liberal-utilitarian association of democracy with private property rights nowadays is so widespread that the former is often used as a proxy for the latter, most non-communist dictatorships have been and continue to be resolutely committed to defending private property from encroachment by those without it. Przeworski (1992) warns that, by default of a system of market democracy equivalent to the political electoral system of “one citizen, one vote”, a democratic deficit will appear, with corrupting effects on economic growth. Even then, based on empirical studies of Eastern European and South-American countries (Przeworski, 1991), he does not find any clear relation between political democracy and economic development. While he dispels any tradeoffs between political democracy and economic development, he claims that, at best, one can conclude that democracies are more likely to survive in wealthy societies. Przeworski also sees a role for the State which is more pivotal than in social-communitarianism – and less holistic than in State-communitarianism. More specifically, he argues that reaching more insightful conclusions about the effects of democratisation requires a better understanding of the relation between State, civic and economic actors (Przeworski, 2003).

### ***b. Dominant liberal-democratic ideal type***

For the last few decades, international policy discourse about democratisation has reflected a liberal-utilitarian Western ideology. In this view, a sound relation between democratisation and economic growth could only be established by enacting the following “liberal-democratic” ideal-type<sup>13</sup>: a system of universal suffrage and a secular body of law protecting the equality of civic, political and economic liberties of all individuals. Based on this ideal-type, nongovernmental organisations such as the Freedom House rank all countries in the world in terms of their soundness. From a research viewpoint, this ideal-type is not very useful, however. It primarily gives weight to formal institutions with a high contemporary visibility, undoubtedly because it reflects a particular version of Western modernity, an imagined historical endpoint for the entire world. What is more, the ideal-type is grounded in the assumption that when it comes to democratisation and economic growth, modernity and premodernity are “mutually exclusive terms”.<sup>14</sup> This has precluded many scholars from taking a more contextualised, and historically variable perspective on the relation between democratisation and economic growth processes in non-Western countries such as Russia, China, India or even Iraq. Even more disturbing, it has precluded a more contextualised, historically variable perspective on the very Western countries that provided the archetype for the ideal in the first place.

Clearly, a perspective on democratisation and economic growth is needed which reflects historically changing, contextualised experiences rather than ideal-type endpoints. In the following paragraphs, I present an analytic narrative which deals with this issue by reconsidering where the Western relation between democratisation and economic growth historically comes from and what firm-centred dynamics this involves.

### ***c. Historical relation between democratisation and capitalism***

The emergence of a “Western world system” of economic, political and civic-religious organisation from late medieval times onwards led to a growing interdependence of groups that previously had lived more or less in isolation. The creation of a level-playing field between these groups induced new contests of purposiveness across previously assumed territorial and community boundaries. Each group tried to influence authority patterns in the level-playing field – for instance the division in core and peripheral nations or upper and lower civilisations – to its advantage. All this led to a remarkable intensification of the mobilisation of people in terms of economic organisation, civilisation projects and State development in the Western world (Jepperson, 2000; Mann 1986; McNeill, 1963; Thomas and Meyer, 1984; Wallerstein, 1974). Before the end of the eighteenth century this intensification generally happened under the geopolitical banner of a city-state or a commonwealth variety – such as the United Provinces or Great Britain. From the nineteenth century onwards, nation-states and to a lesser extent supra-national institutions gained primacy as preferred geopolitical boundaries of intensification. Throughout all these centuries, however, intensification would not have been possible were it not for the invention and propagation of a set of republican principles, the flag of which was carried by as varying geopolitical entities as the Dutch Republic, post-Revolution England, France, the United States and the European Union.

How does the issue of democratisation tie into this? As argued by Mannheim (1935: 44-48), any process of intensification, especially one which involves the development of a large-scale capitalistic system, requires a “fundamental democratisation” of purposiveness, i.e. an increasing involvement of former outsiders in processes of political, civic and economic organisation. Democratisation implies the creation of a new

level-playing field: a “popular opinion” open to contestation and participation by both established and outsider parties (Weber, 1946: 226; cf. Dahl, 1971). Obviously, the opening up and expansion of popular opinion raises all sorts of problems for incumbent elites and gives all kinds of opportunities to leading outsiders, which I shall refer to as “challenger elites”.<sup>15</sup> While incumbent elites endeavour to construct a variety of capitalism able to compete with foreign varieties, they, on the other hand, also wish to hold on to their established authority in the State, civil society and markets as a structuring principle for popular opinion. With the purpose of mobilizing outsiders in their own terms, incumbent elites reinvent “traditions of democratisation” which cast them in the role of historical representatives of popular sovereignty. Overly rebellious outsiders, on the other hand, are portrayed as civically incompetent, economically self-interested and politically immature.

How do challenger elites withstand incumbents’ defensive attacks? Typically, they associate the more recalcitrant elements of the establishment with “old corruption”, on the basis of their alleged monopoly of State, civil society and market authority. If this association gains resonance, and a democratic deficit has been identified, challengers have two options. They can push for new political rules which allow for a more accountable and inclusive representation of entrepreneurs, the working people or civic issues; for instance in terms of a government whose membership is better representative of business dynamics, or in terms of fairer modalities of interest group representation. On the other hand, challengers can call for the liberation of economic organisation from the dominance of “old boy clubs”. Successful challenger elites generally are those who can combine both tracks and reinvent traditions of democratisation which cast them rather than the establishment in the role of rightful representatives of popular sovereignty.<sup>16</sup>

#### ***d. Settling the rivalry between incumbents and challengers***

Obviously, the strife between incumbent and challenger elites cannot go on forever. Over time, established and challenger elites’ positions converge to an extent that a settlement is possible. This generally leads to the setting up of more representative institutional mechanisms aimed at promoting a degree of elite mobility, and at curtailing the rivalling groups’ ability to monopolise political, civic or economic authority. As such a settlement implies a new stratification of political, civic and economic relations (Etzioni, 1968), it unavoidably leads to the loss of authority by at least part of the establishment. Similarly, a settlement does not automatically imply more sway in decision-making authority for outsiders. A necessary but insufficient condition to get into a position of “active democratisation” for challenger elites, is the ability to create a level-playing field with incumbent elites, be it in political, civic and/or economic terms. A sufficient condition is the ability to form a majority coalition with the more forthcoming incumbent elites, and marginalise the uncompromising incumbent and challengers. Only a *minority* of challengers will be able to fulfil this last condition. Those challengers and incumbent elites that are not able to counterbalance the process of downward “levelling” with the attainment of significant leadership influence, are prone to forces of “passive democratisation”. The phenomenon is passive, in that it refers to a process whereby participants – challengers or incumbents – are unable to escape the levelling effects of the new democratic *consensus* and become opinion leaders.

The following example illustrates the workings of active and passive democratisation dynamics. How did sixteenth century Holland entrepreneurs become self-styled “Regents”? For one, they did this by encouraging the separation of their economic

organisations from the “arbitrariness” of old Habsburg politics. Together with republican Orangists – Dutch reformed representatives of the old nobility, these Regents carved out a new leadership position for themselves; not just in the field of markets and politics, but also that of civil society. And Regent and Orangist republicans increasingly met as peers in new high society clubs – purveyors of a higher social class. Politically and economically, Regents and Orangist leaders politicised economic organisations such as the Dutch India Company on a new, more consensual basis – providing all provinces with a proportional number of board positions. Simultaneously, Regents and Orangists settled for a very open stock exchange system – both in Amsterdam and the provinces – that provided the middle ranks with lots of investment opportunities. All the same, especially the settlement between Regents and Orangists ensured a leadership monopoly for themselves and their families.

The success of this settlement was not without limit, however. Throughout the latter part of the seventeenth century, this manifested itself among others in declining levels of economic innovation, and problems to cope with the high fiscal, military and redistributive demands of a strong and autonomous Dutch Republic. What was the main culprit of this decline? In order to mitigate the levelling influences of financial and economic innovation processes on themselves, successive generations of Dutch Regents shifted their weight more exclusively to the field of politics, away from involvement in market entrepreneurship. When in the eighteenth century the Regent clubs’ hold on office became so monopolistic as to turn the Republic in a local patrimonial state, it not only occasioned a turn away from merchant to rentier capitalism. Ultimately, it also caused the demise of the Dutch Republic in a geopolitical world of less local and less patrimonial nation-states such as England and France (Adams, 1994; Roorda, 1964). From a democratisation viewpoint, one historical lesson to be learnt from this example is that, when the fault lines between active and passive democratisation become so rigid as to perpetuate the influence of the same minority, other nations [and their firms] will start outcompeting the original national champion.

## **1.4 Types of democratisation as different solutions to leadership problems**

Handling democratisation dynamics is an important leadership problem. What types of democratisation dynamics exist and what kind of leadership problems do they pose?

### ***a. The relation between economic, civic and political democratisation***

First, democratisation can occur in the civic, economic and political fields; it usually is a combination of all three. Likewise, traditions of democratisation can be reinvented to emphasise the role of the economic, the social (civic), or the political. For instance, the English Whig and Dutch Regent, English Tory and Dutch Orangist traditions are usually reinvented to emphasise the role of respectively economic and social issues (Norton and Aughey, 1981; Crewe and Searing, 1988; Israel, 2004; Kuitenbrouwer, 1985; 1994). These respective traditions are not liberal or communitarian in sich, however; since their main driver is the republican principle of freedom of domination – and both incorporate elements of negative or positive freedom, thus discounting a purely liberal or communitarian heritage.

In terms of a republican settlement, the particular leadership problem here is twofold. What settlement between proponents of Whig and Tory traditions, Regent and Orangist traditions is most likely to stop undue political, civic or economic interference, i.e. measures that inhibit the *autonomous* development of respectively a strong State, a vigorous civil society and economic wealth? And what settlement will best ensure the *complementary* development of a strong State, a vigorous civil society and economic wealth?

**b. *Minority versus consensus democratisation***

Second, following Barnard (1938), the problem of leadership can be conceptualised as containing two sub problems: coordination and cooperation problems (cf. Foss, 2001). Coordination problems are based on the following premise: given that different individuals or groups realise the need to act upon an issue, what is required to make them expect they won't waste their time and efforts if they participate in projects of change – i.e. make them expect sufficient significant others will participate, and the practical means to achieve change will be available (Chwe, 2003; Grandori, 1997; Hensmans, 2006; March and Simon, 1958; Weber, 2005). Questions of coordination thus involve the leadership issue of convincing people to sign up to a change project which they also see a need for, but heretofore did not have the practical means to engage with meaningfully yet. Generally speaking, resolving coordination problems requires a vanguard, a minority, to set an inspirational and practical example. In sum, a coordination problem is an issue of *minority democratisation*.

Contrary to coordination problems, cooperation problems arise from assumptions of self-interest and opportunism between groups (Axelrod, 1984; Camerer and Knez, 1996, 1997; Heath and Staudenmayer, 2000). Questions of cooperation involve the leadership issue of convincing people to sign up to a change project which they do not necessarily think is in their interest. Resolving cooperation problems therefore is a matter of instituting new incentive and distribution mechanisms that diminish tendencies of self-interest and create a common interest across groups, encouraging followers with different agendas to consent or acquiesce to a change project. In sum, a cooperation problem is an issue of *consensus democratisation*.

Obviously, coordination and cooperation problems are interrelated issues. Their resolution depends on a majority of people signing up to the change project. Only when such a majority is found can a democratic settlement be effective; hence the notion of a democratic settlement as a minimum requirement for a lasting democratic truce.

**c. *Cosmopolitan vs provincial nationalisms, personality vs territoriality principles***

In this manuscript I reconceptualise Polanyi's double movement theory to argue that democratisation is a double process of nationalisation, involving a reinvention of rivaling *cosmopolitan* and *provincial* nationalisms, followed by a democratic settlement in a later stage. Polanyi drew attention to the historical workings of a "double movement", meaning that when international elites organise to separate the political, civic and economic, less advantaged local groups typically organise a countermovement to reunite the three fields in a novel way. More particularly, Polanyi (1957: 132) defined his concept of double movement as

"the action of two organising principles in society, each of them setting itself specific institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the world-wide establishment of a self-regulating market, relying on the support of the trading classes, and

using largely laissez-faire and free trade as its methods; the other was the principle of local protection<sup>17</sup> aiming at the conservation of man and nature as well as productive organisation, relying on the varying support of those most immediately affected by the deleterious action of the market – primarily, but not exclusively, the working and the landed classes – and using protective legislation, restive associations, and other instruments of intervention as its methods<sup>18</sup>.

With his theory of the double movement, Polanyi effectively constructed a liberal-utilitarian and social-communitarian dichotomy.<sup>19</sup> In this manuscript, I reinterpret Polanyi's metaphor of the double movement in line with republican principles. To acquire a strategic position and ensure their long-term success, national leaders and firms have to mediate between two movements of democratisation: on the one hand, a movement in favour of a reinvigoration of traditions of cosmopolitan nationalism, on the other hand, a movement in favour of a reinvigoration of territorial, provincial traditions.

Geopolitical tendencies influence whether cosmopolitan or territorial nationalisms gain the relative upper hand; both nationalisms, however, are needed to maintain the legitimacy and viability of a geopolitical system of competing nation-states. If arguments and realities of “national globalisation” win the contest, such as during the periods 1840-1914, and 1970-2007 in the Netherlands, cosmopolitan or city-state traditions are increasingly associated in public opinion with the true national character, in that they are perceived as fundamental to maintaining the autonomy and sovereignty of the nation. Territorial traditions, on the other hand, are then considered more of a secondary, private affair. In times of declining globalisation of nation-states – “national relocalisation”, the opposite is true: city-state traditions are typically associated with established groups and a secondary, private sphere; territorial traditions with outsider groups and the public sphere.

Beyond these differences, in both periods of relative globalisation and relocalisation the same principle goes: democratisation entails a double movement of nationalisation, i.e. a reinvention and re-accommodation of cosmopolitan and territorial national traditions. In other words, traditions of democratisation can be reinvented to focus on competing concepts of the nation<sup>20</sup> or nationalism<sup>21</sup>, respectively the “personality” and “territoriality” principles.<sup>22</sup> The *personality principle* entails the abolition of old and the invention of new connections between land and people, state and nation. It involves the possibility for every citizen coming from any territorial region or ethnic background to choose for a new national community. It is often used by proponents of cosmopolitan freedoms and mobility of goods, money and people. This principle is often associated with large city-state dynamics, such as in for instance New York, Los Angeles, London, Hong Kong, Tokyo, Paris, or Frankfurt. Yet, it is not always. For instance the English and Dutch outer provinces led the way with the personality principle during respectively much of the nineteenth century and the first half of the twentieth century. The *territoriality principle*, by contrast, entails a reinvention of old connections between land and people, state and nation.<sup>23</sup> It is at the heart of claims that a certain territory is characterised by permanent cultural traits – e.g. a certain set of principles, ethnicities, or religious roots. And it is often used by those advancing the causes of authentic liberties, and the “real wealth” derived from territorial unity and autonomy<sup>24</sup>. Again, this is not to say that the outer provinces are always the harbingers of such territorial dynamics; large, soul-searching city-states – such as Moscow nowadays – can be as well.

## 1.5 Why another theory of the firm?

This manuscript does not only deal with demoralisation dynamics at the geopolitical and nation-state levels. It relates firms' economic growth and success to participation in these dynamics. To systematise the relation between firms' participation and firms' success, I incorporate the explanations in the above sections in a "republican settlement" theory of the firm.

Why is such a new theory of the firm needed? For one, republican settlement theory is more empirically encompassing than existing theories when it comes to studying economic, civic and political phenomena. Transaction cost theory, the leading theory within the liberal-utilitarian literature, stresses that firms' success depends on their ability to tackle market failures. Moral theories of the firm, representing the social-communitarian literature, emphasise the resolution of civic failures as the basis of long-term success. Finally, a less popular theory of the firm maintains that firms' success also is about garnering political power and pursuing one's interests<sup>25</sup>; or, more positively than originally intended, the ability to promote those political interests that otherwise may not have been defended. In contrast with these theories, republican settlement theory does not restrict itself to one disciplinary perspective. It subsumes market, civic and political failures under one general category: "democratic deficits". Democratic deficits are grievances expressed in popular opinion by outsiders or established actors that an economic need is not being met, a political interest is not being represented, or a civic value is not being invigorated. In sum, republican settlement theory assumes that firms' success depends on their ability to resolve democratic deficits of an economic, political and civic nature. And involvement in democratisation initiatives which in popular opinion are perceived as more conducive than other alternatives to the promotion of an effective State, economic wealth and the vitality of civil society, is crucial to firms' success.<sup>26</sup>

Second, republican settlement theory is different to existing theories in that it assumes a link between firms' strategies and the historical construction of nation-state settlements. In particular, firms' success also depends on their ability to influence settlements between rivalling minority and consensus dynamics, as well as personality-based versus territorial dynamics. To contribute to such settlements, firms require the ability to function as switching points between different democratisation dynamics. Occupying such a switching point position confronts firms with a particular leadership/follower problem: how to mobilise support or at least acquiescence from a majority of both leaders and followers. For one this implies that firms have to target both leaders and followers. Much trickier, this implies a delicate exercise of anticipation: distinguishing between actors that are most likely to come out as leaders and as followers in future democratic settlements. In other words, judgements have to be made about what minority is fit to be influential and lead, and the rest that is not and can only be taken into account as followers. Based on these judgements, firms develop "minority" and "consensus" strategies of democratisation. The first strategy entails gathering the minority willing *and* competent to change political, economic, and civic modalities of contestability and mobility in a way most likely to produce nation-state success in a changing geopolitical world. The second strategy entails tempering conflict between all competing groups through the redistribution and alignment of incentives. Finally, to find a democratic settlement, the two strategies should complement each other and be perceived

as the best way to maintain or create a successful nation-state in a changing geo-political world. It is in the nature of democratic settlements that not everyone will agree: thus, settlements generally imply marginalising recalcitrant incumbent and challenger groups for being “unrealistic” and/or “anti-national”.

The above properties of republican settlement theory enable us to tackle one of the main questions posed in this manuscript. What is the impact of different strategies of democratisation on firms’ success? I propose two main answers to this question. First, I maintain that, in their bid to get the right balance between competing dynamics of democratisation, firms have to deploy six strategies of democratisation. If executed properly, these strategies have the effect of changing the institutional relation between political interest groups, civic status groups and economic classes in ways advantageous to a particular firm’s growth. Second, I demonstrate empirically that these six strategies are equally applicable to, on the one hand, nation-state settings, and, on the other hand, types of firms which traditionally are distinguished on the basis of their alleged social-communitarian versus liberal-utilitarian character

## **1.6 Historical, actor-centred cross-comparison**

### ***a. Advantages and purpose of approach***

In this manuscript I combine historical, comparative and actor-centred methods of investigation. What are the advantages of such a combination? Conducting historical research allows for a perspective on organisations that goes beyond topical, law-like explanations in that it demonstrates how past decisions and structural turns in varying degrees of intentionality impact on present organisational taken-for-grantedness (cf. Kieser, 1994). On the other hand, given its emphasis on specialist detail, historical research, and business history research in particular, has tended to be notoriously a theoretical (Rowlinson and Procter, 1999). One way to bridge this gap is to rely on a comparative approach, precisely because it provides a way to strike a balance between “grand” theoretical generalisation and the flow of consciousness of specialist historical detail. More particularly, comparative approaches are complementary to historical methods in that they can illuminate the empirical meaning of law-like “universals”. But they can only do on condition that they focus on the range of “solutions’ that men have found for a given problem” across a broader spectrum of localities” (Bendix, 1963: 535), that is, on condition that they take an actor-centred approach. In sum, the combination of historical, comparative and actor-centred approaches has three advantages. First, it is highly suitable to demonstrating how different trajectories of possibilities are selected across comparable situations. Second, it facilitates the identification of the precise agency and institutional properties that caused selection between different trajectories (see also Skocpol, 1980; Djelic, 1998). Finally, it should lead to more empirically warranted conclusions about what properties of a studied phenomenon can be generalised and which ones cannot across contexts and over time (cfr. Baum, 1977: 5).

How is the above relevant to the object of study of this manuscript? The concept of democratisation has been and still is being abused profusely by Western media, governmental or nongovernmental organisations<sup>27</sup> to universalise North-American and European ideal-types. This universalisation for instance has taken the form of inducing Asian, African and Arab governments and popular opinions to embrace economic

liberalisation, a secular rule of law and the universal suffrage as the primary enablers of democratisation. A combination of historical, comparative and actor-centred perspectives can provide an important check on these universalisations. In particular, this study will reveal how the reinvention of particular, informal traditions is crucial to resolving democratic deficits. In a sense, these traditions are the substance that gives meaning to formal Western ideal-types. What is more, one could argue that the very survival of Western ideal-types depends on the continuous reinvention of these more invisible, informal traditions. In other words, by default of the ongoing reinvention of traditions of democratisation and their translation in democratic settlements, ideal type characteristics of democracy such as the universal suffrage would be no more than empty shells with little prospects of sustainability.

Obviously, the aim of this manuscript is not only to demonstrate previously underemphasised differences; the purpose is equally to highlight underemphasised similarities. Thus, I shall demonstrate that traditions of democratisation, albeit different in their specific content, work according to the same republican logic in allegedly social-communitarian and liberal-utilitarian contexts.

### ***b. Empirical choices***

In this manuscript, I relate the success of various types of financial firms in England and the Netherlands – building societies, co-operative, Commercial and savings banks – to their strategic involvement in democratisation movements in the period 1870 to 2007. Firms' success in this regard shall be measured in terms of two variables: total asset growth and market shares. Why did I make precisely these empirical choices of nation-states and firms? In both the literatures on varieties of capitalism (Hall and Soskice, 2001: 8-10; see also Albert, 1991; Streeck and Yamamura, 2001) and democracy (e.g. Lijphart, 1984), England and the Netherlands are differentiated on the basis of supposedly liberal versus communitarian modes of coordination. In this thesis, I set out to demonstrate that dynamics of democratisation in both countries are governed by similar republican logics. The real historical difference between England and the Netherlands is in the type of democratic settlements between challenger and established groups that have worked best.

In addition to recasting the so-called liberal-utilitarian versus social-communitarian character of England and the Netherlands in a new light, I shall make a historical comparison of types of firms which historically have been associated with social-communitarian versus liberal-utilitarian orthodoxy. These two types of economic actors are respectively “mutual” organisations such as co-operatives<sup>28</sup>, building societies or savings banks, and, on the other hand, “utilitarian” organisations such as commercial companies<sup>29</sup>. Traditionally, the history of Western mutual organisations – in particular cooperatives – and commercial companies has remained firmly within the remit of respectively social-communitarian and liberal-utilitarian theory. Still, the demutualisation of co-operative organisations evident in many Western polities at the end of the twentieth century, has precipitated the emergence of liberal-utilitarian theories of co-operatives.

### ***c. The pivotal role of finance and money in democratisation dynamics***

Given the broad scope of sectors in which cooperatives and commercial companies are active, I further narrow down my empirical subset to the banking sector. There are two good reasons for focusing on the financial sector and banks in particular. First, monetary revolutions – most notably the innovation of servicing public debt in the form of a standardized currency (e.g. Dickson, 1967), have been key drivers of dynamics of democratisation. Money, in a standardised form, increases the likelihood that

established and outsider groups will arrive at democratic settlements. In this regard, banks, as guardians of the circulation of money, have always been of particular importance to processes of democratisation. What special properties of money facilitate democratic settlements? Money is a prime enabler of the different democratisation dynamics underlying republican settlements: minority and consensual democratisation; cosmopolitan and territorial dynamics; across the economic, political and civic domains.

Money was increasingly promoted as a standard means of exchange by the establishment, allowing it to retain a measure of control over processes of democratisation. That is because the use of money ultimately has to be sanctioned by the establishment for it to gain currency as a standard and stable means of exchange.<sup>30</sup> Indeed, the expansion of monetary standards has time and time again been used by established parties to enrol outsiders in a system which encourages politically harmless market participation and authority-abiding citizenship at the cost of further possibilities of contestation (cf. Simmel, 1896).<sup>31 32</sup> This is the consensus-inducing side of money.

On the other hand, money is also a prime enabler of processes of minority democratisation, precisely because it has a levelling effect on establishment-outsider differences. Money introduces a measure of impersonal market exchange and “matter-of-factness” which anyone in principle can join on an equal civic footing. This has two advantageous effects for challenger elites. First, the introduction of money lowers entry barriers to participation in civic life – and thus increases opportunities of social mobility. While the establishment can claim that “money is dirty” for a while, it cannot deny money’s matter-of-factness in the long-term – unless it is willing to accept its own financial demise. Second, the introduction of monetary exchange also allows previous outsiders to accumulate enough property to be able to engage in politics on an economically independent basis. Indeed, history demonstrates that challenger elites have time after time leveraged this capacity of money to create a level-playing field with the establishment and achieve a position of active democratisation.

Money also plays a pivotal role in the antithesis between cosmopolitan and territorial nationalisation dynamics. We can distinguish between two historical outlooks on the role of money in consolidating the relation between land, state, civil society and economic wealth: money as virtual or real. This distinction can be mapped on the opposition between two more contemporary theories of money: monetarism and chartalism. In a system of monetarism, national wealth is not just an external reflection of a “real exchange” economy.<sup>33</sup> Rather, it is a reflection of the fact that money is an independent, quantitative commodity that can lead to the creation of territory-transcending customs and legislation – most notably in terms of promissory notes or contemporary variations such as Euromarkets.<sup>34</sup> Chartalists, on the contrary, portray money as the product of existing social customs, taxation and legislation, a symbolic means that can be controlled to some extent by a central state and/or local governments within a national territory (e.g. Muller, 1816; Knapp, 1924).

Generally speaking, proponents of English Whig and Dutch Regent traditions have been (fledgling) proponents of “monetarism”, a financial system partial to a credit-using economy. Promoters of English Tory and Dutch Orangist traditions, on the other hand, rallied more to a “real”, or territorial outlook on money.

## 1.7 Outline of the manuscript

The thesis is structured as follows. In chapter 2, I elaborate on the methodological assumptions used throughout the manuscript. In chapter 3, I elaborate on the “republican settlement” theory of the firm introduced in this chapter. In particular, I maintain that firm need to deploy six strategies to be successful. I also provide a framework that relates firms’ strategies and success to geopolitical and national democratisation dynamics. In chapters 4 and 5, I describe the emergence of Dutch and English republican settlements and traditions of democratisation, by analysing historical evidence from early republican times to the beginning of the 19<sup>th</sup> century. In chapters 6 to 11, I analyse which Dutch and English varieties of financial institutions were more or less successful in the period 1870 to 2007 and why. I organise the empirical analysis in these chapters around the framework and six strategies presented in chapter 3. In chapter 12, I draw on all the prior chapters to present a comparative discussion of the relation between traditions of democratisation, republican settlements, geopolitical changes, Dutch and English retail banks’ strategies of democratisation. I frame this comparative discussion in terms of several propositions. Finally, in chapter 13 I discuss some methodological limitations and present several issues for further research.

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<sup>1</sup> The emergence of the nation-state as the key expression of popular sovereignty and the main lever of democratic self-determination came with the gradual demise of the Holy Roman Empire. The protracted struggles between the pope and the Habsburg emperor allowed for incipient nation-states to push up between the Holy Roman Empire and the local feudal or city-state units (cf. Ergang, 1971: 22). These incipient nation-states, however, were quite disparate entities, centred in court life and not yet inspired by the more active, self-conscious, and territorially unified spirit of “popular sovereignty” that inspired the official birth of nation-states from the late eighteenth century onwards. What is more, it is important to emphasise that, even from the end of the eighteenth century onwards, the nation-based state has remained as much claim as reality. In this regard, the nominal definition of nation-state as “territorial political unit...whose borders coincide with the territorial distribution of a national group” is misleading (Walker, 1978: 96). This definition would lead one to conclude that less than ten percent of existing states qualify as “nation states” (cf. Joppke, 1996). More correct is that nation-states are always subject to competing claims: that of established or would-be established groups laying claim on a territorially unified entity, and that of outsider groups laying claim on a more cosmopolitan entity.

<sup>2</sup> The birth of the nation-state is often associated with the French Revolution, and its search for a universal model of self-determination. The first waves of nationalism in continental Europe coincided with this French development in the late eighteenth and nineteenth centuries. Indeed, with the exception of England and the United States, the French nation-state would become the prototypical example for countries developing their own system of self-determination (Bereciartu, 1986: 11). Through a process of vicarious adoption and adaptation to historical idiosyncracies, however, the French origins often would become virtually unrecognisable. For instance, the German nation-state, while rooted in the experience of the French Revolution, would develop into a very different model of self-determination (cf. Kohn, 1967).

<sup>3</sup> Unless barriers of entry are erected because entrepreneurial dynamics do not suffice to fulfill minimum criteria of economic, civic and political democratisation, i.e. when private entrepreneurship is likely to increase economic, civic or political democratic deficits.

<sup>4</sup> The predecessor of the nation-state of the Netherlands was the Dutch Republic.

<sup>5</sup> See page 35 for an explanation of the term “corruption”.

<sup>6</sup> A further comparison between for instance the US and Sweden or Denmark would bear this out, the latter nation-states being regarded as having a higher standard of living and much lower level of income inequality, a freer and more inclusive civic sphere, and a stronger State. See <http://hdr.undp.org/hdr2006/statistics/> for comparative measures of standard of living and [http://www.economist.com/media/pdf/DEMOCRACY\\_INDEX\\_2007\\_v3.pdf](http://www.economist.com/media/pdf/DEMOCRACY_INDEX_2007_v3.pdf) for comparative measures of political rights and civil liberties. Even Freedom House, the US government-funded institute, ranks Sweden and Denmark higher than the US in terms of comparative measures of political rights and civil liberties <http://www.freedomhouse.org/template.cfm?page=275>

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<sup>7</sup> With regards to non-Western communities, some communitarians insist on the self-sufficiency of premodern community traditions (e.g. MacIntyre, 1981, 1988; Sandel, 1982), while others emphasise the necessity of a “minimal and universal moral code” of human rights to counter growing interdependencies between communities (Taylor, 1999; Walzer, 1987: 24).

<sup>8</sup> In this manuscript, I shall refer to a “popular opinion” rather than the more frequently used label “public opinion” for two reasons. First, by popular opinion I mean an area of action blurring the boundaries between the public and the private. The label “public” is misleading in this regard. Second, popular opinion is the area in which “popular sovereignty” is expressed and shaped.

<sup>9</sup> Of course there are cross-influences between liberals and communitarians. So, the communitarian Putnam adopts the very liberal ideal of a civil society rid of “a-moral familism”.

<sup>10</sup> This last argument of late has been vastly influential. For instance, following North and Weingast’s (1989) explanation of the rise of British capitalism, De Soto (2000) blames the lack of legal rules guaranteeing private property rights for lagging economic growth and democratisation in South-America.

<sup>11</sup> The emergence of the so-called “Washington consensus” in the late 1980s and 1990s gave Fukuyama’s views an air of universalism. The Washington consensus entailed a set of apparently monetarist propositions about the policies most likely to promote economic growth. These propositions more or less summarized the view then held by most of the senior officials at the International Monetary Fund, the World Bank and other international development organisations.

<sup>12</sup> Similarly, Held (1995), Tilly (1995) and Martin and Schuman (1997) note the destructive effects of the “globalisation” of liberal capitalism on democratic processes and workers’ rights.

<sup>13</sup> As a remarkable number of qualifiers and adjectives have been attached to the term democracy (Collier and Levitsky, 1997), I limit myself to these few core ideal-types.

<sup>14</sup> For instance, according to Linz (1998), democracy distinguishes itself from its premodern predecessors by being based on a system of “government pro tempore”, i.e. a system of institutionalised time constraints on those in power. Likewise, it is often assumed that the strength of Western democratic modernity is that it allows for “multiple political forces [to] compete inside an institutional framework”. As such, outcomes never depend on a single controlling force, but rather on a “a system of decentralised strategic action in which knowledge is inescapably provincial” (Przeworsky, 1991: 11-12). Remarkably, despite the assumed modernity of these institutions, the same pre-modern ability of making clear distinctions between leaders and followers (Luxemburg, 1970) is said to be a precondition for the proper working of democratic institutions – leaders being those with the capacity to formulate collective interests and to act strategically to further them (Pizzorna, 1978).

<sup>15</sup> Indeed, as Mannheim (1935: 44-48), argues incumbent elites endeavour to enroll outsiders. Despite the establishment’s best attempts to keep the previously excluded masses “away from politics”, it typically is aware that, in the long run, enrolment in a system of economic intensification also puts “new vigour into these masses”. And this vigour might well attain a structural autonomy beyond the establishment’s grasp. Especially given challenger elites’ determination to translate and organise this new vigour in a popular opinion at a remove from the establishment’s traditional authority

<sup>16</sup> Again, this scenario is typical during times of increasing “globalisation”. In times of declining globalisation, challenger elites attack incumbent elites on the basis of their lack of attention for authenticity and unity, more than on grounds of lack of mobility and freedom.

<sup>17</sup> As “markets spread all over the face of the globe” a reaction comes in terms of “a network of measures and policies...integrated into powerful institutions designed to check the action of the market” (Polanyi, 1957: 76).

<sup>18</sup> In terms of democratisation processes, Polanyi can be said to depict the following movement-counter-movement dynamic. On the one hand, he posits that through a process of privatisation – the installation of economic *laissez-faire* – “market organisation” has been imposed by elite capitalists “on society for non-economic ends” (Polanyi, 1957: 250). This process of privatisation and its corollary of the self-regulating market, could only come about through the political separation of the economic from the embeddedness of local civic communities. Polanyi maintains that against the destruction wrought by economic individualisation, countermovements rise to protect substantive values by transforming them into key concerns of popular opinion. the link between the economic and the political. He adds that these countermovements in a first instance do not work through the formal workings of the State, but only through the grassroot “discovery of society” (Baum, 1996: 45-46).

<sup>19</sup> On the one hand, he posits that international elites demonstrate purely instrumental purposiveness, and thrive by using the State to separate the economic from community restraints. The grassroot masses, on the other hand, are depicted as being motivated mainly by value-rational, public purposiveness; hence their interest in linking the economic to community traditions. At the root of Polanyi’s argument is the communitarian assumption that reciprocal and redistributive forms of economic exchange have been much more common in human history than self-regulating market systems. In fact, Polanyi argues that the advent of the self-regulating market and its

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corollary of self-interested, instrumental behaviour is an historical aberration working against deeply ingrained traditions of altruism and reciprocity.

<sup>20</sup> According to (Cobban, 1969: 108) a “nation” is a group of people who share a significant number (but by no means necessarily all) of the following attributes: history, language, ethnic origin, religion, political belief, fear of the same adversaries. In short, a nation may be defined as “a community that is, or wishes to be, a state”.

<sup>21</sup> Smith (1995: 150-151) maintains that nationalism does not have a theory of how the national will or the national boundaries may be ascertained: “Nationalism’s core doctrine provides no more than a basic framework for social and political order in the world, and it must be filled out by other idea-systems and by the particular circumstances of each community’s situation at the time...nationalism combines a high degree of flexible abstraction with a unique ability to tap fundamental popular needs and aspirations”. In prior work, Smith (1983: 23-24) argued that nationalism fundamentally fuses three historically resonant ideals. First, it invokes claims of collective self-determination by a certain people. Second, it expresses the “Golden Age” of a particular people’s, through notions of national character and individuality. Third, it vertically divides the world into unique nations each contributing its special genius to the common fund of humanity.

<sup>22</sup> See for instance Knippenberg (1996) for a comparative application of the principles to nation-building in the Netherlands and the Soviet Union.

<sup>23</sup> By opening the possibility of both city-state and territorial nationalisms, I go beyond a number of authoritative, but historically reified definitions of nationalism or “economic nationalism” which equate nationalism with contemporary nation-state, i.e. principally territorial boundaries. For instance, Rappard (1937: 1937: 77-78) defines nationalism as “the doctrine which places the nation at the top of the scale of political values, that is, above three values of the individual, of regional units, and of the international community”. Heilperin (1960: 27), on the other hand, with economic nationalism denotes “a body of economic policies aimed at the loosening of the organic links between economic processes taking place within the boundaries of a country and those taking place beyond these boundaries”.

<sup>24</sup> In contemporary terms, real wealth can mean different things. According to some, any definition of real wealth is based on the assumption that domestic households own all assets in the economy. This includes the stock of private capital, net foreign assets (NFA) and public debt. The interpretation proposed in this thesis is as follows: real wealth refers to those “common heritage sources” that constitute a collective birthright to a people; the common heritage sources include land, culture and public services. Generally speaking, what all proponents of real wealth have in common is their urge to steer savings and credit into the most productive national applications, such as industry and the development of householder ownership, rather than the rootless and speculative stock market.

<sup>25</sup> Useful references here are Bonardi et al., 2005; Epstein, 1969; Fligstein, 1990; Hillman et al., 2004; Hillman and Hitt, 1999; Salamon and Siegfried, 1977.

<sup>26</sup> Success in this regard is the outcome of the transition from unrestrained ambitions of contestability and mobility to democratic settlements and habits of restraint.

<sup>27</sup> The clearest example of a nongovernmental organisation is the US-based Freedom House.

<sup>28</sup> According to Weber (1922: 74) Co-operatives are economic associations, i.e. organisations governed primarily by “autocephalous” economic action, where by autocephalous is meant that the chief personnel of the organisation is selected according to the autonomous order of the organisation itself, rather than being appointed by outsiders.

<sup>29</sup> The nominal difference between both types of organisation is based on legal definitions. Obviously, both co-operatives and Commercial companies are based on Commercial principles.

<sup>30</sup> More particularly, by allowing outsiders to participate in popular opinion as individuals motivated by utilitarian money calculations, the establishment has been able to limit organised contestation of institutionalised elite-follower boundaries.

<sup>31</sup> In other words, the political sanctioning of money as a universal means of exchange allows for the participation of previous outsiders in a system of market exchange based on instrumental-rational, rather than value-rational purpose.

<sup>32</sup> According to Simmel (1896: 18) “money produces both a previously unknown impersonality in all economic ownership and an equally enhanced independence and autonomy of the personality” (Simmel, 1896: 18).

<sup>33</sup> A link between money and national wealth based on the reality of territorial customs, State taxation and legislation.

<sup>34</sup> The above distinction can be mapped on the opposition between two more contemporary theories of money: monetarism and chartalism. Contrary to monetarism, chartalism portrays money as the product of existing social customs, taxation and legislation, a symbolic means that can be controlled to some extent by a central state and/or local governments within a national territory (e.g. Muller, 1816; Knapp, 1924).

## 2 METHODOLOGICAL ASSUMPTIONS

### 2.1 Introduction

The focus of this manuscript is on historical units of analysis, namely historical settlements, success models and traditions of democratisation. A methodology that particularly befits historical units of analysis is analytical dualism. For one, analytical dualism - also coined the morphogenetic approach, fully exploits one of the main advantages of historical research. It allows for a perspective on organisations that goes beyond topical, law-like contemporary explanations (Geyl and Toynbee, 1968; Kieser, 1994). Equally important, the methodology allows for a way round one of the most important pitfalls of historical research, namely the tendency to favour either actor-driven or structural properties in historical explanations. In the same vein, analytical dualism can provide a way to balance explanations in terms of both strategic problem-solving and *longue durée*. To achieve this, however, the morphogenetic approach has to accommodate another major problem of historical research: the tendency to privilege either specialist detail or theoretical universalisation.

Generally speaking, historical research has tended to privilege specialist detail over theoretical generalisation, including in business research (Rowlinson and Procter, 1999). Confronted with this theoretical weakness, political ideologists – liberal and communitarian alike – have been quick to fill the void with grand theoretical universalisations of their liking – for instance about the phenomenon “democratisation”. As noted in section 1.6, one way to bridge this gap is to rely on a comparative approach, precisely because it provides a way to strike a balance between grand theoretical generalisation and the flow of consciousness of specialist historical detail. More particularly, comparative approaches are complementary to historical methods in that they can illuminate the empirical meaning of law-like universals. Especially if researchers focus on the range of solutions that actors have found for a given problem across a broader spectrum of localities. Only then are conclusions warranted about what properties of a studied phenomenon can be generalised and which ones cannot.

But the rewards of comparative history can only be reaped on one condition; a condition which brings us back to the methodology of analytical dualism. Key actions and structural turns have to be identified in terms of varying degrees of strategic intentionality and *longue durée* – with special attention to the role of “accidents” in changing historical trajectories. Furthermore, one has to distinguish between different sequences of structural and strategic changes – episodes – that are comparable on a case by case basis across different contexts (Haydu, 1998).

Analytical dualism is able to accommodate all these requirements. In what follows, I shall briefly discuss the origins and history of this methodology, before considering how it meets each of the challenges pointed out above. At the core of analytical dualism is a particular view of (the relation between) actor-driven and structural properties of historical dynamics. Logically, this is where my archaeology of the methodological assumptions underlying analytical dualism starts.

## 2.2 Outline of the chapter

Logically, I start the chapter (2.3) with a discussion of the various dimensions of modern agency – instrumental and value rationalisation – and structure – normative and material authority. Subsequently (2.4) I provide a short history of the ontological and methodological study of the relation between agency and structure. The history ends with Archer’s framework of analytical dualism (2.5). Finally (2.6), I argue in favour of supplementary attention to the contrary workings of creative problem-solving and *longue durée* – in particular the role of historical accidents; pointing out the importance of deploying the framework of analytical dualism across several historical episodes.

## 2.3 Dimensions of agency and structure

### *a. Dimensions of agency: value- and instrumental-rationalisation*

Weber was one of the first to identify modern agency with “rationalisation”, in particular the interplay between the instrumental and value rationalization of human agency. Agency is instrumental-rational when the relative efficiency of different available means to an end, and sometimes even the ends themselves are weighted, so as to maximise benefits. This type of action is typically associated with rational economic action, but also with rational political action. Agency is value-rational, by contrast, when the relative effectiveness of alternative means to an end are assessed, but the ends themselves are accepted as given, perhaps as a moral imperative. This type of agency usually is associated with charismatic leadership and the creation of civic communities – but it can easily spill over to the spheres of political and/or economic rationality.

The concept of rationalisation was not just an “ideal type” for Weber. For him it had firm roots in an empirical “feeling of modernity”: “we associate the highest measure of an empirical ‘feeling of freedom’ with those actions which we are conscious of performing rationally” (Weber, 1949: 124). He argued that this phenomenological sense of freedom, far from being rooted in unpredictability and irrationality, arises precisely in those situations that can be consistently predicted and mastered. Despite its obvious merits, Weber’s concept of rationalisation is one-sided.

First, his analysis is skewed in that it predominantly identifies “rationalisation with the growth of the instrumental and strategic rationality of action complexes” (Habermas, 1979: 192). Lurking behind this tendency is a sort of materialistic determinism (cf. Gerth and Mills, 1946: 47). This determinism holds that the instrumental-rationalisation essential to the development of modern capitalism, while making possible the technical implementation of large-scale administrative tasks, is “substantively” irrational in that it contravenes some of the most distinctive values of Western civilisation (Giddens, 1970: 325). In his own words, instrumental-rationalisation unintentionally leads Westerners in an “iron cage” of irrationality.

Second, Weber’s determinism as to the unintentional effects of rationalisation might well have been grounded in his denial of the emotional or communal quality of rationalisation – the value-rational counterpart of instrumental-rationalisation. Weber (1922) acknowledges that value-rationalisation provides for real human values beyond individual utility and depersonalized calculation. Yet, as noted by Archer (2000: 80-81): “in many ways Weber is not our guide to commitment or the moral career...for his own

Kantianism, in which the stern voice of duty has the task of overriding our passions, also makes Calvinists of us all in our lifeworlds. What fuels our commitments is left entirely obscure because of the firm conventional line which Weber draws between value-rational and emotional action. Emotions are viewed as uncontrollable forces, not themselves subject to our deliberations, yet capable of subverting our evaluative determinations.” Instead of relegating the emotional to “irrational” charismatic authority, as Weber does, I shall reconnect emotional investment with rationality, by introducing the concept of emotional “antagonism” as a crucial element of value-rationalisation.

Going beyond Weber’s methodological individualism, Polanyi (1957b) adds that value-rationalisation has a non-quantifiable, “community-creating” effect (cf. Baum, 1996: 51). This effect is grounded in the struggle between established and outsider groups, and the emotional antagonisms that are created in the process between these groups (Elias, 1965; Schmitt, 1932; see also Bourdieu, 1985). In contrast to value rationality, instrumental rationality does not respect antagonisms and communal boundaries between established and outsider groups. Instead, it is grounded in the association between insiders and strangers according to depersonalised, calculable criteria (cf. Münch, 1990). For instance, the growth of local credit co-operatives in the Netherlands was partly attributable to their capacity to organise beyond the local community-level, and organise in Central Co-operatives. Through these Central Co-operatives, the local Co-operatives were able to pool their financial reserves, and build a financial capital that could be used selectively according to impersonal, utility-maximising rationales.

The important thing to remember is that value-rationalisation and instrumental-rationalisation are mutually constitutive. On the one hand, value-rationalities play a pivotal role in any process of instrumental-rationalization: they infuse impersonal, utilitarian rationalities with a sense of purpose, a “unified view of the world derived from a consciously integrated and meaningful attitude toward life” (Weber, 1930: 450). For instance, the regional association of local co-operatives in Central Co-operatives, would not have been possible without religious leaders’ concurrent mobilisation of local farmers around a common antagonism; i.e. an aversion for liberal and socialist democratisation influences. While instrumental-rationality needs values to motivate actors and infuse them with distinct purposiveness, value-rationalization does not occur in a vacuum either, but needs to pass the test of instrumental-rationality to be viable in economic life. For instance, the bourgeois community of international financiers concentrated in first Antwerp and later Amsterdam, provided foreign sovereigns and nobles with the same international lending and financing practices which had caused its prior “excommunication” from domestic affairs. This move to instrumental-rational lending practices in the international sphere was not only concurrent with the material needs of warring international sovereigns, but also with the development of an “economic individualism” in fifteenth century Antwerp, “a home common to all nations”, ruled by a liberal bourgeoisie pursuing, “in the teeth of all precedents, a policy of practical individualism which would have been met in any other city by rebellion” (cf. Tawney, 1926: 67-69). That financiers in Antwerp and later Amsterdam were able to engage in impersonal lending practices with mutually warring sovereigns without being attacked themselves, was made possible by the fact that these cities were recognised as a-political spheres of private utility exchange in the public interest.

What is the relevance of the above for this particular study? From an agency perspective, the intensification of purposiveness in Western Europe went hand in hand

with the mutually constitutive processes of value- and instrumental-rationalisation. Unfortunately, however, in describing this process, most contemporary organisational scholars deny the concept of instrumental-rationalization any footing in the process of value-rationalisation. Instrumental-rationalization is often interpreted exclusively in terms of means-end rationalities to the detriment of the evaluation of the ends themselves (Whimster and Lash, 1987: 19). One of the aims here is to remediate this flaw in organisation studies. In order to do this, we first turn to a discussion of the structural results of value and instrumental rationalisation efforts, namely normative and material authority.

***b. Dimensions of structure: normative and material authority***

According to Weber (1922: 943) economic organisation faces “two diametrically contrasting types of authority”: the first type is material as it refers to “a constellation of interests (in particular by virtue of a position of monopoly)”, the second type is normative as it refers to the legitimacy which infuses those holding it with “the power to command” and those acknowledging it with “the duty to obey”. Normative authority is the structural capacity of actors to realise their beliefs of what is purposive and what is not by virtue of collective status-role expectations. Material authority, on the other hand, refers to actors’ structural capacity to enact their interests by virtue of the sheer visibility of their number or size.

As determinants of the stratification of the fields of civil society, politics and markets, normative and material authority come into being through two dynamics, value-rationalisation and instrumental-rationalisation. The emergence of these forms of rationalisation marked a structural transition in Western history: that from a social order based on external constraint (traditional authority) to one dependent on the internalisation of constraint (rational authority). This crucial transition in Western life entailed the internalisation of a belief in self-determination as a main driver of human conduct; concurrently a progressive “disenchantment” with external belief systems (Alexander, 1987: 187) and an increasing reliance on the visibility of material results as proof of the capacity of self-determination. From an historical perspective, this implied an increasing will to believe that problems considered before as metaphysical could come within reach of self-determination if tackled through instrumental-rationalisation. Instead of external belief systems, Westerners started internalising a generalised awareness of public norms in their life conduct (Etzioni, 1968: 225; Mead, 1934). As we shall see, this involved among others the emergence of the structural realities of state law, civil societies, geopolitical and market rationalities.

Weber further subdivides normative authority in three ideal types: legal-rational authority, charismatic authority and traditional authority. For Weber, there is a general trend in Western society towards the expansion of legal-rational authority. In a nutshell, legal-rational authority entails obedience to impersonal, predictable, abstract rules that ensures the self-constraint needed for a stable public order. While legal-rational authority provides the normative basis of impersonal association, traditional authority has its basis in the unreflective reproduction of local, communal practices over time. Charismatic authority, finally, is produced through the emotional effects of exceptional leaders who reveal a new normative order to their participants. Weber argues that, though remnants of traditional authority are still visible nowadays, in modern times it is mainly through the charisma of an extraordinary leader that community feelings can arise (Weber, 1922: 243).

Despite its obvious merits, Weber's analysis of normative authority is flawed, especially when it comes to charismatic authority. For it is in this concept that Weber's two major theoretical weaknesses converge: on the one hand, his methodological individualism, and, on the other hand, his firm belief that value-rationalisation and emotional action are unconnected: indeed, for Weber emotional action is "irrational". These two assumptions leave him with no other option than to introduce a *deus ex machina* explanation in his account of charismatic authority. On the one hand, he claims that charismatic leadership, as the basis of emotional community-creation, is "specifically irrational in the sense of being foreign to all rules" (1922: 244) and only dependent on the personality of one individual. On the other hand, Weber defines the essence of charismatic authority as devotion to the "normative patterns or order revealed or ordained" by the leader (1925: 215, italics added). Discarding the *deus ex machina* explanation begs the question: how does a leader mobilize a community of participants and build a normative order? Instead of reducing charismatic authority to the "revelation" of a normative order to a privileged leader, I propose that it is through the ongoing creation of collective value-expectations – what Mead calls the "generalized other" (1934: 155) – that community-effecting, normative authority comes about (Joas, 1997). More particularly, as a specific end-result of value-rationalisation, charismatic authority comes about by unifying a community around specific antagonisms against outsiders' lifestyle (cf. Elias, Schmitt, Schütz). Obviously, the availability of individuals able to take up normative status-roles can facilitate the creation of this authority. The effect of the individual taking up these roles, however, is as much structural as charismatic. In assuming this, I correct another flaw in Weber's theory of authority: his tendency to conceive of tradition and modernity as "mutually exclusive terms" (Bendix, 1967). Thus, while Weber reduces traditional authority to a residual variable in danger of extinction in modernity, I argue that the creation of charismatic authority hinges on the availability of charismatic leaders able to plausibly "invent traditions" of authority (Hobsbawm, 1983).

Regarding the concept of legal-rational authority, I assume with Weber that the emergence of legal-rationality depended, on the one hand, on the creation of a communal framework setting the boundaries of legitimate popular opinion (Weber, 1946: 195) , and, on the other hand, on the creation of a State apparatus – an infrastructure of State – holding a legitimate monopoly of violence. Weber's double assumption reveals how the strength of legal-rational authority hinges on its relation to both normative-charismatic and material authority. On the one hand, since charismatic leadership is the basis of community-creation, it provides for the foundations of emotional attachment and normative obligation to the law. On the other hand, the authority of law also hinges on its material instantiation in a bureaucratic apparatus able to make visible the legitimate monopoly of violence. Weber's double assumption notwithstanding, most accounts of legal-rational authority do not make explicit its grounding in both a normative and material component.<sup>35</sup>

## **2.4 Relation between dimensions of agency and structure: an archaeology**

As should have become clear from the above, Weber's work has proved invaluable in expounding agency and structural properties of organisational endeavours. The same cannot be said about his elucidation of the relation between agency and

structural properties. For one, as his argument about the increasing disenchantment with Puritan Christianity in favour of material instrumentality indicates, Weber's analysis of modernisation is rife of material determinism. Also, through the lens of his methodological individualism, Weber identifies modern "rationality" predominantly with autonomous agency properties. This assumption, together with his inclination of material determinism, barred Weber from spelling out that the "rational" also has autonomous structural properties, of both material and normative substance. Instead, he associated the structural dynamic of modernisation with growing substantive "irrationality", and the agency dynamic with a "blind" search for formal rationality (cf. Gronow, 1988: 327-9).

**a) Elias**

With his account of the development of Western civilisation, Norbert Elias (1939) was one of the first to tackle these deficiencies in Weber's theory. He argued that there is more to the modern spirit than reflective rationalization: "rationalization...represents only one side of a more comprehensive change in the whole social personality. It goes hand in hand with a corresponding transformation of drive structures" (Elias, 1939: 414). In this sense, what is finally attributed qualities of "rationality" not only depends on the autonomous properties of agencies, but also on the structural changes in the way people habitually orient themselves in the world in which they live: "what is rationalised is, primarily, the modes of conduct of certain groups of people" (Elias, 1939: 412). This entails the embodiment in habitual conduct of self-constraints (Mennell and Goudsblom, 1998: 19; see also Bourdieu, 1979: 170). As a largely unpredictable by-product of the purposive interaction between agencies, this structural dynamic has often been called "internalisation" (Mead, 1934; Parsons, 1964; Bourdieu, 1979).

Because Elias' account is positioned as a reaction against Weber's methodological individualism, it tends to be quite structuralist. In other words, Elias' contribution to the discussion was only partially successful. As we shall see in the next section, Talcott Parsons, another student of Weber, while making other valuable contributions demonstrated some deterministic flaws too. In fact, it is only with Lockwood's, Giddens' and Archer's reactions to Parsons' endeavours, that the relation between structure and agency – as two equally important sides of the problem of human organisation – has been tackled in less deterministic ways. In what follows, I review the contributions of each of these authors with regards to the relation between agency and structure, starting with Parsons.

**b) Parsons**

In trying to develop a systematic approach to sociological theory, Parsons (1964, 1951, 1937; Parsons et al., 1962) developed a "structural-functional" perspective on agency. According to Parsons, interaction between individuals is not random but mediated by common "standards of value-orientation" – i.e. norms – that provide a stratified order to action. He argued that the "fundamental dynamic theorem of sociology" (1952: 42) should be to focus on those structural points of the social system that provide normative integration to social action. Within this context, the key sociological issue was the study of the integration of levels of social analysis. More specifically, echoing Weber's interest in, on the one hand, societal rationalisation, and, on the other hand, the modern individual's "conduct of life", Parsons focused on "the problem of theoretical formulation of the relations between the social system and the personality of the individual" (1964: 1). While initially, Parsons articulated a micro-oriented action theory in terms of Weber's "verstehen" and focused on voluntarism and emergent properties of action (1937), he gradually lapsed

into a perspective on actors as passive recipients of normative integration. As a result of Parsons' personal theoretical development, there lingers in his terminology a duality between voluntaristic action and externally constraining structures.<sup>36</sup>

*c) Lockwood*

In response to the dominance of the Parsonian assumption in Anglo-Saxon sociological thinking that the motives of human agency could only be supplied by an integrated normative order, Lockwood (1956, 1964) was one of the first scholars to renew attention for, on the one hand, the non-normative elements of agency, and, on the other hand, the dynamics of structural change through conflictual action. First, Lockwood (1956) claims that Parsons neglected the existence of a non-normative factual order in the sphere of "power, economic and political" (141)<sup>37</sup> – as first elucidated by Marx and Weber. Nevertheless, material interests – i.e. "interests other than those which actors have in conforming with the normative definition of the situation" (1956: 136) – are essential to a sociological analysis of social stratification, and need to be treated on a par with normative structures. In fact, in maintaining that "sociology has to do with the interplay of norm and [material] substratum in relation to the problem of stability and change of social systems", Lockwood seems to have been aiming at a more sweeping methodological change.<sup>38</sup> Second, Lockwood (1964) advances the necessity of a non-reductive analysis of the interplay between structure and agency. Thus, in contrast with Parsons, Lockwood (1964) does not assume action to be bound to the confines of systemic integration. Instead, he emphasises that "parts" at the system level and "persons" at the social level not only are analytically distinct, but also to some degree independent of each other. Combined with his prior claim that "the very existence of a normative order mirrors the continual potentiality of conflict", most notably with regards to "material interests" (Lockwood, 1956: 137), Lockwood opens up considerable space for what has since been seen as a key problem of social analysis: "why does some conflictual action issue in structural change whilst equally intense conflictual action remains without issue?".

*d) Parsons again*

An aspect of Parsons' structural-functionalist statement that was left largely unexplored by Lockwood and Archer is his second criterion of stratification. Indeed, Parsons recognises that "the concrete hierarchical 'position' of a system-unit in a social system cannot only be a function of its place in the scale of valuation relative to an integrated common value-system, because no social system is ever perfectly integrated in this sense" (1953: 390). He thus points to the existence of a second criterion of stratification: material power, which he defines as "the realistic capacity of a system-unit to actualise its 'interests' (attain goals, prevent undesired interference, command respect, control possessions, etc.)". Parsons elaborates the notion of material power by describing the relation between what he called the functional imperatives of the social system and its different subsystems, most notably the "economy" and the "polity". The "economy" is an action system geared towards the functional imperative of fulfilling individual need-dispositions through adaptation to and of the environment. The function of the action system called the "polity", on the other hand, is to attain "societal" goals. Coming from an "evolutionary theory" background, Parsons reduces economic dynamics to the adaptation of behavioral need-dispositions. The primary motivation of action in the economic subsystem is the individual "optimization of gratification" (cf. Parsons, 1951: 5-6). Politics, on the other hand, is mainly geared towards instrumental-rational collective "goal-attainment", i.e. the enforcement and authoritative interpretation of societal norms in

relation to the environment. More generally speaking, it concerns “collective action in whatever situations indicate that relatively specific measures should be undertaken in the ‘public’ interest” (Parsons, 1969: 46). While Parsons also wants to leave room for autonomous political norm-creation, this secondary autonomy argument hardly is consonant with his primary argument that an overarching social system normatively integrates the subsystems, most notably the economy and the polity. More specifically, Parsons argues that the social system keeps the functions of adaption (economy) and goal-attainment (polity) in line with higher “governing” patterns of purposiveness through the normative regulation provided by status-role expectations<sup>39</sup>.

*e) Giddens*

Giddens (1979, 1984), in what has come to be known as “structuration theory”, set out to transcend the dualism of structure and agency, by building on Lockwood’s distinction between system and social integration. For Giddens, social and system integration, agency and structure, are two sides of the same coin. So, on the one hand, “structure is both medium and outcome of the reproduction of practices” (1979: 69), and, on the other hand, structure only exists through agency. Agents have “rules and resources” between them which facilitate or constrain their action. Giddens’ analysis has often been criticised for its overly agency centred character, as evidenced by Giddens’ statement that “structure has no existence independent of the knowledge that agents have about what they do in their day-to-day activity” (1984: 26). Since, for Giddens, structure and agency are always mutually constitutive, their interplay can be separated only by so-called “methodological bracketing”. Two types of methodological bracketing are possible. In so-called “institutional analysis”, structural properties are treated as chronically reproduced features of social systems. In the “analysis of strategic conduct”, on the other hand, the focus is placed upon the contextually situated activities of definite groups, where actors draw upon structural properties in the constitution of social relations. (Giddens, 1984 :288). As a proponent of “social constructionism”, Giddens has been severely criticised by “critical realists” such as Archer<sup>40</sup>, who blame him for neglecting the pre-reflexive and autonomous reality of a stratified order.

## **2.5 Archer’s analytical dualism**

### *a. Introduction*

Coining herself a “critical realist”<sup>41</sup>, Archer developed a methodological programme called “analytical dualism” (1982, 1988, 1995, 1996, 2000)<sup>42</sup>. With this programme, Archer has two main aims. First, she endeavours to go beyond Giddens’ (1979, 1984) social constructionist concept of “duality”. Giddens introduced this concept in order to transcend the dichotomy between voluntarism – the transformative capacities of actors – and determinism – the persistent, recursive nature of action. Referring to the phenomenon of bureaucratisation as introduced by Weber, Archer maintains that Giddens’ concept of duality “precludes a specification of when there will be ‘more Voluntarism’ or ‘more Determinism’” (Archer, 1996: 86). Giddens’ structuration theory has produced a conceptualisation of social reality as timeless and endless praxis; ontologically, only praxis is real while structures and agents are only useful analytical constructs (Archer, 1995: 79-89). Contra Giddens, Archer insists that structures and agents from an analytical point of view possess their own emergent properties and can be temporally differentiated. The aim of Archer’s approach of analytical dualism thus is not to eradicate the dualism of structure

and agency, but to realise that to analyze the interplay between these two sides of the same coin, one must introduce a methodological “historicity” that recognises their interdependence over time, but rejects the idea that they are reducible to one another at a certain point of time (1995: 66). This, however, is only possible if one takes the view that structure and agency are phased over different tracts of time, and that the former begins prior to the latter, having autonomy from it and exerting a causal influence on it.

In terms of this manuscript, one advantage of analytical dualism is that it is aimed at differentiating between causalities at the levels of structure (nation-state institutions) and agency (firms). Another advantage is that it explicitly incorporates an historical approach to the interaction of structural and agency effects. The combination of these two aspects makes the morphogenetic methodology a compelling approach for drawing theoretical conclusions from historical phenomena. Especially when these historical phenomena are the result of a systematic comparative analysis of both agency and structural dynamics, as is the case here with the twin focus on firms’ strategies and changing nation-state institutions.

***b. Applying Archer’s analytical dualism***

Not surprisingly I shall apply Archer’s framework of analytical dualism to throw light on the historical phenomena under study in this manuscript. As with all social science methodologies, orthodoxy should not be prioritised over relevant application to specific empirical and theory-building cases. Thus, rather than literally following Archer’s prescriptions, I apply the methodology of “analytical dualism” in a way most adapted to the particular cases and theory-building purposes at hand. In particular, I construct historical narratives and classify historical events and actions in terms of the following three analytical phases<sup>43</sup>:

**PHASE 1: CHANGING GEOPOLITICAL OPPORTUNITY STRUCTURE**

First, there is a period of structural conditioning, in which emergent structural properties causally impinge on actors. These structural properties emerge as growing contradictions between changing geo-political realities and the type of democratic settlement that is currently in place.<sup>44</sup> Contradictions act as a mechanism for “warning and alarming” that a disturbance must be removed (Luhmann, 1984: 369-373).<sup>45</sup> By creating a structural tension, they open a potential for change which outsiders try to take advantage of.<sup>46</sup> Contradiction in the context of this study, most notably emerges in the form of perceptions of a “democratic deficit”, be it with regards to political, economic and/or civic institutions

**PHASE 2: FIRST STRATEGIC INTERACTIONS**

Second, there is a period of strategic interaction, in which established and challenger elites propose rivalling solutions to democratic deficits.<sup>47</sup> <sup>48</sup> Typically, challenger elites frame their arguments in terms of “transformation”, while established elites argue for “reproduction”. To make their case, challenger and established elites reframe their arguments in terms of those traditions of democratisation which are most contiguous with their positions.

**PHASE 3: STRATEGIC POSITIONS IN NEW SETTLEMENTS**

Finally, there is a period of institutional elaboration, in which the more lasting, structural effects of strategic interaction take shape. In contrast with phase 1, in which structural contradictions – between geopolitical and domestic realities – trigger action, in phase 3 action triggers the formation of complementarities between structural realities.<sup>49</sup> If clear complementarities emerge in democratic settlements between domestic and

geopolitical realities, nation-states' and firms' strategic positions are likely to improve or be consolidated. If no clear complementarities are found, the probability will be high that overwhelming contradictions will emerge in a next phase, forcing actors to engage in radical and traumatic transformation.<sup>50</sup>

The totality of these three phases encompasses what Archer calls a cycle of morphogenesis<sup>51</sup> or morphostasis, depending on whether new settlements result in respectively structural transformation or reproduction.<sup>52</sup> I shall apply this methodological framework in chapter 3, figure 3.2, to throw light on the relation between democratisation dynamics and firms' ability to occupy a favourable vantage point in nation-settlements.

## 2.6 Strategic problem-solving versus *longue durée*

Less clearly integrated in Archer's analytical dualism are two key aspects of the agency-structure debate: the issues of strategic problem-solving – relatively “unhistorical” creativity (cf. Geyl, 1955; Nietzsche, 1983) – and *longue durée*.

### a) *Strategic problem-solving*

As argued before, analytical dualism is highly suitable to identify the precise agency and institutional properties that caused selection between different trajectories of problem-solving (see also Skocpol, 1980; Djelic, 1998). Especially if an empirical phenomenon such as democratisation is considered across clearly delineated comparable episodes in different localities. Yet, beyond this methodological framework, how does the creativity of problem-solving come about? Archer (2000) herself has brought up the lack of elaboration of creative action in her previous work. I shall draw mostly on elements of pragmatic philosophy to fill this void. The pragmatism of Peirce (1877, 1878), Dewey (1927, 1922, 1917), Mead (1934) and James (1908) has as often been called social communitarian as liberal-utilitarian. One reason for this paradox is that pragmatism is not a monolithic theory, and the bringing together of decontextualized propositions of different pragmatists often leads to contradictory conclusions. So, while certain propositions of Dewey and Mead reveal a tendency towards communitarianism, James' propositions of “theories as instruments” and “the cash-value of ideas” point more to a mentality of utilitarianism (cf. James, 1908: 23). Yet, in general, pragmatism differs from communitarianism and utilitarianism on crucial points. First, pragmatism is not a theory that assumes an ethical or political reality of the good waiting to be discovered, but rather is a theory of political and ethical creativity, i.e. the making of reality. So, for James, the reality of politics, morality or the economy is acquired through the *putting in practice of a “will to believe”*. This will to believe is *invented rather than revealed* in the course of human activity. In other words, the reality of an “organisational habit” is created through a process that can be called “what pays in practice by way of belief”. Quite different from utilitarians and communitarianism, pragmatists – with the exception of Peirce, who tended more towards a metaphysical pragmatism – essentially are process philosophers for whom the journey, the flow, is more important than the outcome or the product (cf. McDermott: 93). Nevertheless, if pragmatism is used as a short-term perspective, Dewey and Mead more and more become communitarians, and James more and more becomes a utilitarian. To differentiate pragmatism from the a priori assumptions of communitarianism and liberalism it therefore is essential to treat it as a long-term perspective.

Pragmatists maintain that all purposive action is caught in the tension between prestructuring habits and acts of creativity (Joas, 1992: 129). While the “practical

consciousness”<sup>53</sup> of habits dominates most of human endeavours, creative, “discursive consciousness”<sup>54</sup> only arises in situations of “breakdown” of these habits, when new problems arise that call for new solutions. In other words, according to pragmatist thinking the blockage of traditional, routine activities encourages actors to start a conscious reassessment of the situation, a process which has been termed “*reconstruction*” by John Dewey (1977 [1917]) and George Herbert Mead (1934). Reflexive forms of intentionality and explicitly stated goals emerge when habits fail.<sup>55</sup> The anchoring of purpose in concrete “problem-solving” situations can be seen as the most fundamental pragmatist vantage point. With this problem-solving perspective, pragmatists directly refute teleological interpretations of purposiveness, be they in terms of normative or material functionality<sup>56</sup>.

Adopting a problem-solving perspective allows for a more actor-centred perspective on historical episodes than is usually the case in communitarian or utilitarian accounts. Indeed, a problem-solving approach can provide a richer answer to the question why agencies at a given time focus on either existing or new institutions to resolve issues. In this view, one can understand how agencies’ purposiveness is not (dis)embedded, but more or less transformatory, depending on the history of increasing or decreasing returns associated with certain institutions.

The biggest deficiency of pragmatic theories of problem-solving is their lack of institutional underpinnings, which leaves their notion of “habits” rather ungrounded in structural variables of context and history. Thus, I reconsider the relation between the “will to believe”, “what works in practice” and “habits” from a viewpoint of traditions accumulated over the *longue durée*. I argue that expressing affinity with such traditions – through modernised habits – is as important in creating actual beliefs as the other way round. In other words, to foster a new “will to believe” when the old one is breaking down, one needs to keep cultivating traditions – product of the old will to believe – by modernising the expressive habits associated with them.

#### ***b) Longue durée***

The “*longue durée*” is a term introduced by the French *Annales* School to designate a particular approach to the study of history, which gives priority to long-term historical structures over short-term events and social consciousness. This social science approach to historical research was pioneered by Marc Bloch and Lucien Febvre, furthered by Fernand Braudel and most recently integrated in Robert Putnam’s study of Italian democracy. The great merit of *longue durée* writers is their insistence on the discovery and elaboration of centuries old, pre-modern structures as a condition to an adequate understanding of modern institutions such as capitalism and democracy. Also, the *Annales* School emphasises the role of historical accidents in their perspective on the emergence of enduring deeper structures. Unfortunately, like Marxists the *Annales* writers tend to overemphasise deep structures over social superstructures, leading to a somewhat deterministic, objectivistic focus. Furthermore, some writers tend to privilege normative structures – structural mentalities (e.g. Febvre, 1911), while others are too enamoured with material structures such as geography or the environment (Braudel, 1958).

Although the recent work of De Landa (2000) falls into the latter category, it managed to refresh the *longue durée* school of thinking by reframing it from a morphogenetic viewpoint. According to De Landa, deeper structures should not be assumed as such, but studied as the result of specific historical processes, specific interactions between actors, institutions and organisations. Although the author still calls

social consciousness and actors “lower scale” entities – true to the structuralist Annales School, his work opens an avenue to an innovative take on the *longue durée*. For instance if one reinterprets republican settlements from the following viewpoint. Historical settlements accumulate as enduring problem-solving vehicles – success models – by way of the repeated interaction between normative ideals, material factors such as geography and environment, as well as historical accidents – “happy” accidents in the case of success models. Furthermore, key to the morphogenetic approach introduced by De Landa is that such success models can be vehicles of transformation as well as stability or inertia. The outcome simply depends on actors’ creative capacities, as well as the timely re-occurrence of happy accidents.

*c) The importance of studying successive episodes*

In order to study the causal roles of strategic problem-solving and *longue durée* in a meaningful way it is necessary to study historical phenomena across different historical episodes. *Longue durée* and historical accidents – and their effect on social consciousness – by definition can only be analysed as the accumulative result of different episodes. Likewise, it is only possible to distinguish the historical role played by either intentional problem-solving or unintentional accidents if one considers that either could be reinforcing or, on the contrary, thwart the other. This again calls for a study of successive historical episodes, at least two but preferably three or more to allow for enough variety of causalities and structure-strategy interactions.

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<sup>35</sup> In addition, normative accounts of law such as the one dominant in American sociology are conspicuously silent on the charismatic properties of agencies engendering legal rationalities. In this manuscript, I explicitly rely on the assumption of this double grounding.

<sup>36</sup> Nevertheless, in a final instance, Parsons called himself a “cultural determinist”, which for some tilts the balance of his theoretical endeavours decidedly towards a one-way structure-action process. For instance, in Parsons’ later work he emphasises the key process of internalisation: “the ways that the norms of a system are transferred to the actors within the system” (Ritzer, 1992: 357). Thus, some maintain that “in the world of Talcott Parsons, actors are constantly orienting themselves to situations and very rarely, if ever, acting” (Whyte, 1961: 255)

<sup>37</sup> Lockwood elsewhere specifies what he means by the material: “the factual organisation of production, and the powers, interests and conflicts and groupings consequent of it.” (1956: 137-138)

<sup>38</sup> “The presence of a normative order, or common value system, does not mean that conflict has disappeared, or been resolved in some way. Instead, the very existence of a normative order mirrors the continual potentiality of conflict. ...Therefore, ... it is necessary to conceptualise not only the normative structuring of motives but also the structuring of interests in the substratum.” (Lockwood, 1956: 137)

<sup>39</sup> Obviously, there are serious problems with Parsons’ account of the economic and political action. In particular the reduction of economic action to behavioral adaptation, and political action to the attainment of goals set in a higher field of purposiveness, namely culture, is problematic. From an actor-centered, empirical point of view, denying economic and political agencies any real autonomy of purpose is a self-defeating research strategy. In addition, Parsons’ analysis is incomplete in so far as it does not elaborate on the different levels of analysis of “the political” and “economic” and their mutual relation. Does “the political” only relate to the structure of State? How are the political and the economic differentiated and how do they interpenetrate each other? How are value-rationalisation and instrumental-rationalisation related to the political and the economic?

<sup>40</sup> Its ample merits notwithstanding, Archer’s interpretation of the morphogenetic methodology can still be refined. Perhaps the most common concern expressed by those critical of Archer’s critical realist approach is that it tends to reify social structures by accepting that these structures have an internal logic and reality of their own external to human influence. Indeed, the criticism uttered by social constructionists and poststructuralists is that Archer’s approach falls heavily on the structuralist side of the structure/agency debate. This criticism misses the point that Archer is introducing an “analytical” separation between structural and agency causalities with the aim to facilitate empirical research in historicising terms. What does remain unclear in Archer’s argument, however,

are two elements. First, most of Archer's attention has gone to the analysis of normative structure, much less to the interplay of normative and material structures through the concepts of contradiction and complementarity. Archer (2000: 24) even claims that complementarities and contradictions are internal to normative structures, not internal to the interplay of material and normative structures, as Lockwood originally claimed. (Archer claims that culture, i.e. normative structure, is a "system with internal relationships of contradiction and complementary as its emergent properties" (2000: 24). A second weakness in Archer's analysis is the lack of elaboration of rivalling agency dynamics compared to the attention given to structural contradictions and complementarities. This carries a distinct, though unintended methodological danger: the privileging of the structural over the actor-oriented. For instance, Weber's structuralist assumption of, on the one hand, a complementarity of the instrumental-rational with modernisation, and, on the other hand, a contradiction of the value-rational with modernisation, led him to predict a future in which means dominate values and the substantive is systematically irrationalised to the advantage of the formal-technical. (This refers to Weber's argument that, while the formal rationality of bureaucracy enables large-scale administrative tasks, it is substantively irrational in that it denies some of the most distinctive values of Western civilisation (see also Giddens, 1970: 325)). Weber foresaw no way of breaking through this irrationality. He claimed that the future would only bring increasing submergence of human autonomy and individuality within an ever-expanding bureaucratisation of modern life: "the technical and economic conditions of machine production...determine the lives of all the individuals who are born into this mechanism, not only those directly concerned with economic acquisition, with irresistible force" (Weber, 1930: 123). Although this argument has proven to be overly deterministic and negative (e.g. Beetham, 1987), it has had an important influence on organisational sociology. (Obviously, I am not implying that Archer disregards the importance of processes of value-rationalisation in modern times. Indeed, in her latest work Archer has started to emphasise on the very importance of value-rationalisation and human agency. contradictions are "functional" in that they at the same time provide the motivation to build new structural complementarities and reorder the social system (Luhmann, 1987a, 1987b). Grievances of corruption arise when a group of challenger elites challenges the wisdom of established modes of coordinating political, economic and civic issues. To make their case, challenger elites reframe their arguments in terms of those traditions of democratisation which they see as resonating most in terms of soundness). To avoid this methodological trap, I introduce two dynamics at the agency level as a counterpart to structural "relations of contradiction and complementarity": the dynamics of "antagonism" and "association". (For an explanation of the relation between antagonism and association and respectively value-rationalisation and instrumental rationalisation, see Appendix A, 2a) These dynamics effectively relate to the four logics of democratisation introduced in section 2. More specifically, I claim that by engaging in political and economic association – the logics of special interest and selective incentive – and civic antagonism – the logics of established and outsiders, economic actors endeavour to transform structural contradictions into complementarities. On the one hand, the preference for the term association is quite evident in a study which takes the economic organisational level as one of its key units of analysis. On the other hand, from an actor-centered perspective, antagonism points to a different dynamic than "contradiction", as it forces the organisation studies scholar to focus on the empirical reality of how agencies draw boundaries between who and what constitutes civic community and what not. (Every antagonism "transforms into a political one if it is sufficiently strong to group human beings effectively according to [the categories] friend and enemy" (Schmitt, 1932: 37). Antagonism is a highly emotional, simplifying mechanism that instills an absolute belief in the superior worth of the own community as opposed to other communities (cf. Gamson, 1995; Ruef, 2000). Obviously, feelings of antagonisms partly originate in the discursive articulation of contradiction. Still, as argued by Laclau and Mouffe (1985), to gain maximum emotional resonance contradictions should be grounded in binary oppositions that best reflect emerging common denominators in popular opinion. Laclau and Mouffe illustrate this with a well-known example. So, they argue that a major reason for the growth of Thatcherism in the 1980's was the conservatives' capacity to articulate the increasing unease of the public with collectivist policies: in particular, the conservatives successfully contrasted the notions of "consumer" and "bureaucrat", "market" and "state", "individual" and "society".

<sup>41</sup> The ontology of critical realism was developed by Bhaskar (1975, 1993).

<sup>42</sup> Analytical dualism is an emergentist ontology produced by the realist philosophy of science according to which social reality is stratified, so that "the emergent properties of structures and agents are irreducible to one another... and given structures and agents are also temporally distinguishable" (Archer, 1995: 66).

<sup>43</sup> Archer in effect distinguishes between four phases (see footnote 34).

<sup>44</sup> One could here refer to the "Tocqueville effect" which Furet interprets as the democratic resentment which an unbearable consistency between various aspects of reality created in France before and during the Revolution (Furet, 1981; Tocqueville, 1856).

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<sup>45</sup> As we shall see in phase 3, contradictions also are “functional” in that they at the same time provide the motivation to build new structural complementarities and reorder the social system (Luhmann, 1987a, 1987b).

<sup>46</sup> In the words of Archer (1996a: xxii): “contradictions mould problem-ridden situations for actors which they must confront if and when they realise, or are made to acknowledge, that the proposition(s) they endorse is enmeshed in some inconsistency”. As in any other social system, contradiction lies at the heart of change in varieties of democratic capitalism (cf. Przeworski, 1992; Girling, 1997).

<sup>47</sup> My “phase 2” in effect collapse in one phase two phases of Archer’s approach, the first referring to the surfacing of challenger properties of social interaction, the second referring to the immediate effects of social interaction.

<sup>48</sup> According to Archer, in this phase, the emergent properties of agencies surface and the immediate outcomes of strategic interaction become clear.

<sup>49</sup> In contrast with contradictions, complementarities mould problem-free situations for agents.

<sup>50</sup> Likewise, Giddens maintains that, as a structuration principle, “contradiction can underlie or stimulate retrograde movements of historical change” (Giddens, 1979: 141-143). He defines a “social contradiction” as an “opposition or disjunction of structural principles of social systems, where those principles operate in terms of each other but at the same time contravene one another”. This argument also applies to Luhmann’s central notion of contradiction, which he – like Giddens – sees as the link between structure and agency. Neither purely structural nor purely intentional, contradictions articulate the “dynamic of self-referential meaning” of social systems. On the one hand, contradictions counteract for an instant the system’s pretension to being totally ordered by opening up a potential of “indeterminate complexity”. On the other hand, contradictions still “possess enough form to guarantee the connectivity of communicative processing via meaning” (Luhmann, 1984: 373).

<sup>51</sup> The terms morphogenesis and morphostasis derive from the work of Buckley (1967) and refers to the social processes that alter or change systems’ states. In Archer’s terms, morphogenesis and morphostasis are concerned with how society changes over time, through the inter-play of structure and agency as a historical process. Structures may stay the same. While morphogenesis denotes that new structures replace the old, morphostasis points to the reproduction of old structures as a result of agencies.

<sup>52</sup> Despite its ample merits, Archer’s interpretation of the morphogenetic methodology can still be refined. Perhaps the most common concern expressed by those critical of Archer’s critical realist approach is that it tends to reify social structures by accepting that these structures have an internal logic and reality of their own external to human influence. Indeed, the criticism uttered by social constructionists and poststructuralists is that Archer’s approach falls heavily on the structuralist side of the structure/agency debate. This criticism misses the point that Archer is introducing an “analytical” separation between structural and agency causalities with the aim to facilitate empirical research in historicising terms. What does remain unclear in Archer’s argument, however, are two elements. First, most of Archer’s attention has gone to the analysis of normative structure, much less to the interplay of normative and material structures through the concepts of contradiction and complementarity. Archer (2000: 24) even claims that complementarities and contradictions are internal to normative structures, not internal to the interplay of material and normative structures, as Lockwood originally claimed. (Archer claims that culture, i.e. normative structure, is a “system with internal relationships of contradiction and complementary as its emergent properties” (2000: 24)) A second weakness in Archer’s analysis is the lack of elaboration of rivalling agency dynamics compared to the attention given to structural contradictions and complementarities. This carries a distinct, though unintended methodological danger: the privileging of the structural over the actor-oriented. For instance, Weber’s structuralist assumption of, on the one hand, a complementarity of the instrumental-rational with modernisation, and, on the other hand, a contradiction of the value-rational with modernisation, led him to predict a future in which means dominate values and the substantive is systematically irrationalised to the advantage of the formal-technical. This refers to Weber’s argument that, while the formal rationality of bureaucracy enables large-scale administrative tasks, it is substantively irrational in that it denies some of the most distinctive values of Western civilisation (see also Giddens, 1970: 325). Weber foresaw no way of breaking through this irrationality. He claimed that the future would only bring increasing submergence of human autonomy and individuality within an ever-expanding bureaucratisation of modern life: “the technical and economic conditions of machine production...determine the lives of all the individuals who are born into this mechanism, not only those directly concerned with economic acquisition, with irresistible force” (Weber, 1930: 123). Although this argument has proven to be overly deterministic and negative (e.g. Beetham, 1987), it has had an important influence on organisational sociology. (Obviously, I am not implying that Archer disregards the importance of processes of value-rationalisation in modern times. Indeed, in her latest work Archer has started to emphasise on the very importance of value-rationalisation and human agency. contradictions are “functional” in that they at the same time provide the motivation to build new structural complementarities and reorder the social system (Luhmann, 1987a, 1987b) . Grievances of corruption arise when a group of challenger elites challenges

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the wisdom of established modes of coordinating political, economic and civic issues. To make their case, challenger elites reframe their arguments in terms of those traditions of democratisation which they see as resonating most in terms of soundness). To avoid this methodological trap, I introduce two dynamics at the agency level as a counterpart to structural “relations of contradiction and complementarity”: the dynamics of “antagonism” and “association”. (For an explanation of the relation between antagonism and association and respectively value-rationalisation and instrumental rationalisation, see Appendix A, 2a) These dynamics effectively relate to the four logics of democratisation introduced in section 2. More specifically, I claim that by engaging in political and economic association – the logics of special interest and selective incentive – and civic antagonism – the logics of established and outsiders, economic actors endeavour to transform structural contradictions into complementarities. On the one hand, the preference for the term association is quite evident in a study which takes the economic organisational level as one of its key units of analysis. On the other hand, from an actor-centered perspective, antagonism points to a different dynamic than “contradiction”, as it forces the organisation studies scholar to focus on the empirical reality of how agencies draw boundaries between who and what constitutes civic community and what not. (Every antagonism “transforms into a political one if is sufficiently strong to group human beings effectively according to [the categories] friend and enemy” (Schmitt, 1932: 37). Antagonism is a highly emotional, simplifying mechanism that instills an absolute belief in the superior worth of the own community as opposed to other communities (cf. Gamson, 1995; Ruef, 2000). Obviously, feelings of antagonisms partly originate in the discursive articulation of contradiction. Still, as argued by Laclau and Mouffe (1985), to gain maximum emotional resonance contradictions should be grounded in binary oppositions that best reflect emerging common denominators in popular opinion. Laclau and Mouffe illustrate this with a well-known example. So, they argue that a major reason for the growth of Thatcherism in the 1980’s was the conservatives’ capacity to articulate the increasing unease of the public with collectivist policies: in particular, the conservatives successfully contrasted the notions of “consumer” and “bureaucrat”, “market” and “state”, “individual” and “society”.

<sup>53</sup> Giddens (1984: 375) defines practical consciousness as follows: “What actors know (believe) about social conditions, including especially the conditions of their own action, but cannot express discursively; no bar of repression, however, protects practical consciousness as is the case with the unconscious”. Turner (1991: 531), for his part, defines it as follows: “the stock of knowledge that one implicitly uses to act in situations and to interpret the actions of others. It is this knowledgeability that is constantly used, but rarely articulated, to interpret events – one’s own and those of others”.

<sup>54</sup> Turner (1991: 531) states that discursive consciousness, “involves the capacity to give reasons for or rationalise what one does (and presumably to do the same for others’ behaviour)”. Giddens (1984, p. 374), on the other hand, defines discursive consciousness as, “What actors are able to say, or to give verbal expression to, about social conditions, including especially the conditions of their own action; awareness which has a discursive form”.

<sup>55</sup> “Our perception must come to terms with new or different aspects of reality; action must be applied to different points of the world, or must restructure itself. This reconstruction is a creative achievement on the part of the actor. If he succeeds in reorienting the action on the basis of his changed perception and thus continuing with it, then something new enters the world :a new mode of action, which can gradually take root and thus itself become an unreflected routine.” (Joas 1996 :128f).

<sup>56</sup> It has often been claimed that what prevails in Weber is a model of action that prioritizes reflection, i.e. rational and intentional action, and downgrades habit, most notably traditional and to some degree affectual action. So, for instance Alexander (1983: 152) claims that for Weber the concept of habit is a “residual category” reducible to action motivated by affects and values. Still, a counterargument which holds that Weber did refer to pre-reflective, habitual socialisation is gradually taking the upper hand. So, according to Camic (1986) the role of habit has not been sufficiently brought out, where by habit he denominates a “more or less self-actuating disposition or tendency to engage in a previously adopted or acquired form of action” (1044). Though an habitual disposition is relatively unmotivated and not subject to reflective argument (cfr. Giddens, 1979), it exhibits a “meaningful character”, either taken for granted by the actor or lodged in the unconscious (Camic, 1986: 1047; see also Berger and Luckmann, 1966: 53). Weber used the notion of habit not to refer to lower-level acts, but in the broadest sense, as a generalized disposition that suffuses a person’s action throughout her entire lifetradition. In the European tradition of Durkheim (1893, 1905-6), Elias and Bourdieu this encompassing notion of habit is mostly denoted as *habitus*.

### 3. A “REPUBLICAN SETTLEMENT” THEORY OF THE FIRM

#### 3.1 Introduction

In this manuscript, I develop a “republican settlement” theory of the firm. What are the benefits of this theory as compared to existing theories of the firm? Summarising shortly, existing theories of the firm do not underline the centrality of the rivalry between established versus outsider groups. They do not tackle rivalling minority and consensual, territorial and personality principles across the spectrum of political, market and civic democratic deficits. And they do not incorporate a historical perspective which ties a firm’s success model inextricably to the success model – historical settlements and traditions – of the nation-state or (nation-states) it is associated with.

##### *a. Main assumptions about firms’ capabilities*

In presenting this theory, my outlook on firms is influenced by the Penrosian equation of success with long-term growth, and the assumption that such growth requires the dynamic capability to continuously create “productive opportunities” and devise new consumer strategies (Penrose, 1959: 53). My outlook on firms departs from Penrose’s analysis, in two ways. First, within a republican settlement perspective firms and nation-states are co-constitutive of each other. Nation-state leaders cannot conclude democratic settlements without the collaboration of firms. And firms need the stability and geopolitical legitimacy of nation-state settlements to grow. Why are such settlements important for firms? Not only does a successful settlement safeguard the right of self-determination of a nation-state, based on the perceived “ability of a nation to be an independent state” in the eyes of other nation-state actors.<sup>57</sup> By proxy, the presence of such a settlement also conditions the right of self-determination of firms in the eyes of other actors – based on the perceived ability of a firm to determine its own governance system in the eyes of other actors. These other actors could be allied or rivalling firms, regulatory bodies, stock exchange organisations and participants, civil rights organisations (e.g. NGOs), labour unions, etc...

Second, by extension, the long term growth of firms requires more than the consumer capabilities emphasised by Penrose; political and civic capabilities are equally important. Furthermore, I assume these capabilities centre on the rivalry between outsiders declaiming a lack of mobility and contestability, and established groups protecting their entitlements. In what follows, I subsume the different economic, civic and political capabilities required to deal with this rivalry under the denominator of “logics of democratisation”. Finally, I assume that these logics of democratisation constitute effective dynamic capabilities in so far as they draw on rivalling traditions of democratisation, promoted by competing established and outsider groups.

##### *b. Outline of the chapter*

I start this chapter by providing a number of conceptual definitions. What is meant by popular opinion or markets? What are the different logics of democratisation? Drawing on a clarification of these concepts, I expound the main differences between social-communitarian and liberal-utilitarian theories of the firm in terms of the clarified concepts. I shall use the example of cooperative organisations to illustrate the differences. After having outlined the limitations of either theory, I present an alternative set of

assumptions, which I refer to as “republican settlement theory”. Drawing on this theory of the firm, I present six propositions about the strategies of democratisation firms need to develop to ensure success. The empirical relevance of these six propositions will be demonstrated in chapters 6 to 11. Finally, I build a framework for the study of the relation between democratisation, nation-state and firms’ long-term success. This framework draws on the “morphogenetic” methodology; an approach which allows for the analysis of structural and agency changes over time. In this thesis, the analysis concerns nation-state changes – England and the Netherlands – and banks’ strategies of democratisation from about 1870 to the year 2000.

### 3.2 Definitions: fields and logics of democratisation

In chapter 1, I argued that the process of democratisation involves two steps. First, it involves the creation of a new level-playingfield, a “popular opinion”<sup>58</sup> which blurs political, civic and economic logics, and which gives both the establishment and outsiders a chance to influence authority patterns within and between the fields of politics, civil society and markets. Second, as political, civic and economic actors draw closer to a settlement the window of opportunity to get in an influential position gradually closes; positions of active and passive democratisation become gradually institutionalised. Let us now review the main structural and agency concepts in the above account.

From a structural viewpoint, I distinguish between four fields of action in the above account of democratisation: civil society, politics, markets and popular opinion. By “*civil society*”, I mean the field of community life in which groups vie for the internalisation of status-role authority<sup>59</sup> on the basis of distinctive patterns of civic behaviour (e.g., Diamond 1999; Linz and Stepan 1996)<sup>60</sup>. Ultimately, civil society is structured according to the capacity of agencies to realise their beliefs of what is more or less civilised. “*Politics*”, on the other hand, is the field of associational life in which groups vie for the internalisation of governmental authority on the basis of distinctive conceptions of a public interest. Ultimately, the field of politics is structured according to the capacity of agencies to gain electoral or governmental sanction for their program<sup>61</sup>. By “*market*”, I mean the field of associational life in which groups vie for the internalisation of economic authority on the basis of patterns of utility exchange<sup>62</sup>. The concerns salient in “popular opinion”, finally, blur the conventional boundaries between politics, markets and civil society (Crick, 1962; Lefort, 1988: 35; Zaret, 1996); popular opinion acts as a level-playing field<sup>63</sup> for democratisation dynamics in the other three fields. In essence, it is the area at the intersection of the three other fields, in which traditions of democratisation are reinvented and democratic settlements between rivaling groups are reached. As noted in chapter 1, these democratic settlements refer to a double concern:

- how to stop undue political, civic or economic interference, i.e. measures that inhibit the autonomous development of respectively an effective State, a vigorous civil society and economic wealth,
- and*
- how to ensure the complementary development of an effective State, a vigorous civil society and economic wealth

What types of agency and logics of democratisation correspond to the above structural fields of action – politics, markets, civil society and popular opinion? I distinguish between three types of agency, corresponding to four logics of democratisation. *Political*

*agency* refers to the instrumental-rationalisation of popular opinion in terms of special interest groups, political parties, governments etc... With regards to democratisation dynamics, political agency embodies the “*logic of special interest*”. This logic is based on the principle that firms need to provide their stakeholders with political incentives that are not available elsewhere in order to attract and retain them. In terms of the democratisation strategy of a firm, this implies framing the latter as a vehicle for the advancement of as yet unmet citizen grievances and interests. *Economic agency*, on the other hand, also refers to the instrumental-rationalisation – the “making calculative” and systematic (Callon, 1999) – of popular opinion, but this time in terms of exchange utilities. With regards to democratisation dynamics, economic agency takes the form of the “*logic of selective incentive*”. This logic is based on the principle that firms need to provide their stakeholders with market incentives that are not available elsewhere to attract and retain them (cf. Olson, 1965).<sup>64</sup> In other words, firms have to be seen as a vehicle for meeting consumers as of yet unmet needs and desires. Finally, by civic agency I mean the value-rationalisation<sup>65</sup> of popular opinion in terms of norms and morals of civilisation. With regards to dynamics of democratisation, civic agency can take the form of two logics: the “*logic of establishment*” and the “*logic of outsiders*”.<sup>66</sup> Both logics are based on the same principle: framing democratisation in terms of the values of the preferred side, i.e. the establishment or outsiders. Regarding firms’ strategy this means they have to frame their actions in terms of both the values and aspirations of established and outsider groups. The effectiveness of both logics often depends on the creation of feelings of enmity towards part of the establishment and part of the outsiders – those from either groups who are not on your side. This is done by alleging corruption amongst those groups, and by elevating friendly groups as the true guardians of democracy. Specifically, the “logic of establishment” works by stigmatising outsiders as incompetent or corrupt parvenus, while the “logic of outsiders” involves stigmatising the “old corruption” of the establishment.

What is corruption? Generally speaking, claims of corruption emerge when rivalling established and outsider groups accuse each other of pursuing purposes which transgress in some respect the boundaries between political, civic and market concerns. Corruption thus can come in three guises: economic, political or civic transgression. For some, corruption is the illegitimate reminder of the values of the market place (everything can be bought and sold) that in the age of “global capitalism” increasingly permeate political and civic spheres. In this view, corruption represents the normative perception of capitalist ‘excess’: the culmination of the systemic process of collusion among economic and political elites that results in the re-confusion of public and private spheres (Girling, 1997: vii). Others see interference by political actors in markets and civil society as the main culprit of corruption. In this view, corruption involves substituting rule in favour of the private interests of an individual or group for those publicly endorsed practices which affect an ordered resolution to conflicting private interests. In this case, corruption acts by subverting the distinction between special interests and the public responsibilities of office, thereby eroding the very distinction upon which the domain of politics relies for its capacity to resolve conflict (Philip, 1997: 458; see also Ross, 1952: 146-150). Finally, corruption can also be grounded in the “moral incapacity of citizens to make reasonably disinterested commitments to actions, symbols and institutions which benefit the substantive common welfare” (Dobel, 1978: 958). Citizens lacking self-discipline and altruism tend to place unwarranted demands upon political and economic organisations, while they really should resolve these issues within the confines of civil society.

In tables 3.1a and 3.1b, I summarise what structural and agency dynamics relate to the four logics of democratisation. As will become later, firms need to deploy strategies in terms of these logics to ensure their long-term success. And in figure 3.1 I depict the relation between all the constituent elements of democratic settlements, i.e. the relation between the different fields, logics and traditions of democratisation.

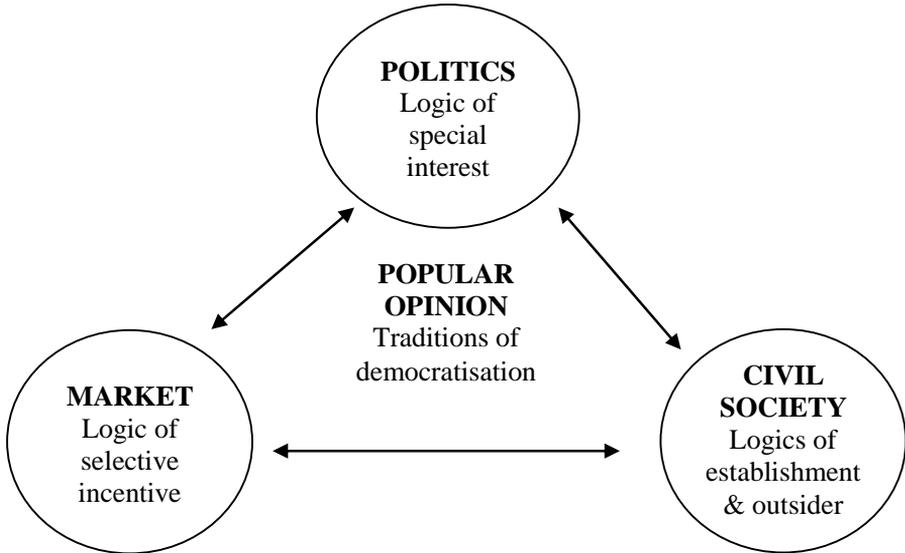
**Table 3.1a: Firms’ political and economic logics of democratisation**

<i>Field</i>	<b>Politics</b>	<b>Market</b>
<i>Type of Agency</i>		
<b>Instrumental-rationalisation</b>	<u>Logic of special interest:</u> Frame democratisation in terms of the advancement of target groups’ specific interests	
		<u>Logic of selective incentive:</u> Frame democratisation in terms of meeting target groups’ economic demands

**Table 3.1b: Firms’ civic logics of democratisation**

<i>Field</i>	<b>Civil society</b>	
<i>Type of Agency</i>		
<b>Value-rationalisation</b>	<u>Logic of established:</u> Frame democratisation in terms of a catering to the values and aspirations of outsiders	<u>Logic of Outsider:</u> Frame democratisation in terms of a catering to the values and aspirations of the establishment

**Figure 3.1: The different constituent elements of democratic settlements**



### **3.3 Liberal-utilitarian versus social-communitarian theories of the firm**

From the viewpoint of the above democratisation logics, what are the main differences between liberal-utilitarian and social-communitarian theories of the firm?<sup>67</sup> I distinguish between six main differences (see table 3.2). First, there is the question of the locus of democratisation, i.e. the field which harbours grievances of democratic deficit. Should firms' strategies of democratisation be framed in civic, political or economic terms? Second, there is the question of the ontological "unit of democratisation" which is assumed in social-communitarian and liberal-utilitarian theories of democratisation. Should the target of democratisation efforts be a community or an individual? With regards to these two questions, liberal-utilitarians see markets as the basic sphere of democratisation; politics and civic society should approximate markets as much as possible by supporting the ideal of the autonomous individual. Social-communitarians, by contrast, see civic society as the basic sphere of democratisation, which politics and markets should approximate as much as possible by supporting the ideal of community.

Third, there is the question of the logics of democratisation promoted by the different perspectives. Which ones amongst the logics of special interest, selective incentive, establishment and outsiders are most valued by the different perspectives? Because of their fondness of the virtues of pre-established communities, social-communitarians privilege the logics of establishment and special interest. Liberal-utilitarians, by contrast, privilege the logics of outsiders and selective incentive. They are inspired by the ideal of autonomous individuals: eternal outsiders to political or established

groups, who are busy calculating market utilities, not devising special interests or higher values.

**Table 3.2: Liberal-utilitarian versus social-communitarian theories of the firm**

	<b>Social-communitarian theory</b>	<b>Liberal – utilitarian theory</b>
<b>Main source of democratisation</b>	Civil society	Market
<b>Unit of democratisation</b>	Cohesive community	Autonomous individuals
<b>Logics of democratisation</b>	<ul style="list-style-type: none"> <li>- Logic of established</li> <li>- Logic of special interest</li> </ul>	<ul style="list-style-type: none"> <li>- Logic of outsider</li> <li>- Logic of selective incentive</li> </ul>
<b>Main source of corruption</b>	Domination of self-interest	Domination of special group interests
<b>Character of the firm</b>	<ul style="list-style-type: none"> <li>- Civic virtue</li> <li>- Territoriality principle</li> <li>- Active democratisation</li> </ul>	<ul style="list-style-type: none"> <li>- Economic freedom</li> <li>- Personality principle</li> <li>- Active democratisation</li> </ul>
<b>Role of the State</b>	Servant of civic communities <sup>68</sup>	Guarantor of stability (property rights) and non-interference in markets

Fourth, there is the question what the main source is of corruption – of the relation between democratisation and economic growth. Is it the domination of motivations of self-interest as social-communitarians argue, or, on the contrary, domination of group interests over individual utilities as liberal-utilitarians maintain?

Fifth, there is the question of what type of organisational character firms should develop to combat corruption. Should firms keep political and civic considerations at arms' length – as liberal-utilitarians argue, or should firms' economic and political

considerations be embedded in civil society – as social-communitarians argue? Should firms follow the territoriality principle and value long-lived community traditions of authenticity and stability, as social-communitarians advocate? Or should firms value mobility and contestability dynamics according to the personality principle, i.e. ground themselves in a city-state such as London and value universal freedom and mobility, as liberal-utilitarians maintain? A third character choice is whether firms should be a vehicle of active or passive democratisation for participants. For once liberal-utilitarians and social-communitarians agree on an issue: firms should be vehicles of active democratisation for all participants. Finally, there is the question of the role of the State in supporting firms' strategies of democratisation. Should the State be a "servant" of the communities in which firms are embedded as social-communitarians argue? Or should, as liberal-utilitarians maintain, the State restrain its role to promoting stability – f.i. of property rights – and guaranteeing non-interference with the autonomous workings of the market?

To illustrate the differences between liberal-utilitarian and social-communitarian theories of the firm, I shall use the example of cooperatives. The aim of this exercise is to prepare the ground for an alternative set of assumptions, subsumed under the denominator "republican settlement theory". Utilitarian theorists of cooperatives generally speaking approve of the separation of markets from political and civic concerns. They shrug off non-economic explanations of cooperative purpose for being motivated by "human ideals" rather than by the material "reality of the economy" (e.g. Emelianoff, 1948; Hansmann, 1996; Holmström, 1999; Van Diepenbeek, 1990). More specifically, according to Hansmann (1996: 294-295), the most authoritative theorist of cooperatives at the moment, a cross-country comparison of cooperatives demonstrates that civic traditions and morals are irrelevant to the success of firms: "culture and ideology do not seem to play a conspicuous role in the organisational forms that appear across different societies, nor do they show great force within societies". Rather, cooperative growth ultimately can only be evaluated in terms of market efficiency: "in those portions of their economies that societies have left to private enterprise, the logic of the market has been surprisingly strong and uniform in choosing forms of ownership". What is more, while civic concerns are just irrelevant, political interference is plain detrimental to cooperatives' success: "governmental regulation often plays an important role in permitting investor-owned firms to flourish where cooperatives or nonprofits would otherwise be dominant". Ultimately, cooperatives can only be successful when they exert "a corrective effect on the lack of equilibrium in market relationships" (Nationale cooperatieve Raad, 1957: 96), i.e. when there are dominant local actors exerting unchecked market power (cf. LeVay, 1983; Schrader, 1989)<sup>69</sup>.

Liberal-utilitarians impute cooperative members and leaders with ahistorical, impersonal, economizing motives. In spite of Parsons' (1940) and Hirschman's (1977) warnings that even in its most taken-for-granted form, "self-interest seeking with guile" (Williamson, 1985: 47) is also a product of normative and historical internalising of status-maintaining or enhancing behaviour, liberal-utilitarians maintain that organisational growth is a matter of human beings following the biological rule of adaptive instrumentality. As such, they build a functional realism which assumes that modern organisations are transparently purposive and human kind is engaged in a progressive evolution towards more efficient forms (Dobbin, 1994b: 138). While the frame for rational behaviour thus becomes a set of transcendental economic laws, organisational growth is

modelled as the optimising of private utility-maximising behaviour in accordance with these laws, through the institution of formal constraints – contracts, statutes, technologies. If organisations and individuals do not internalise these formal rules, the market environment will eliminate them (Williamson, 1975). Typical of this approach is that efforts of public ordering are perceived as having only a very limited impact on the “private ordering” of economic authority relations (cf. Williamson, 1985: 10).

In contrast with liberal-utilitarians, social-communitarians are deeply aware of the importance of historical path-dependencies in their account of human purposiveness. Still, they are equally teleological<sup>70</sup> in their assumptions about, on the one hand, the separation of the economic from the civic, and, on the other hand, how cooperative members and leaders deal with this separation. So, Marx and Polanyi<sup>71</sup> describe the separation of local traditions of civility and cosmopolitan movements of marketisation in nineteenth century England as the deliberate product of respectively ruthless capitalists and the state, who through violent oppression imposed a system of self-regulating markets on the working classes<sup>72</sup>. Yet, it has by now become clear that the emergence of self-regulating markets – as enabled by the separation of territorial control and city-state dynamics – predated their putting forward as a conscious object of policy more than a full century (Perkin, 1968: 11; see also Hobsbawm, 1968)<sup>73</sup>.

Communitarians depict cooperatives as the community-oriented counterweight for the unbridled instrumental-rationalisation of global capitalism. They see the emergence of cooperatives as the logic result of the historical workings of a “double movement”<sup>74</sup> (Polanyi, 1957a): in response to capitalists’ disembedding of markets from local community traditions – i.e. the globalisation of markets, civic groups organise to re-embed economic concerns in community traditions. The final ambition of the latter groups’ efforts is the emergence of a cooperative or “Socialist Commonwealth” (Owen, 1927; Beatrice and Sidney Webb, 1902, 1930).<sup>75</sup> Clearly, social-communitarians picture any meaningful separation of the economic from the civic as the prerogative of opportunistic and exploitative groups. This has held cooperatives back from realizing their full potential. For instance, 1844, the year when the Rochdale Pioneers decided to pay dividend on purchases was described as “the first major breach with Owenism, and one that proved fatal to its ultimate ideal” (Pollard, 1960: 95).<sup>76</sup> The date is used to distinguish between the “idealism” of the Owenite phase<sup>77</sup> and the “self-interest” characteristic of the post-1844 period (Gurney, 1996: 4).

Even now, this belief is considered commonsensical amongst social-communitarians. Following for instance Putnam’s (1993), “true cooperators” believe that the separation of dynamics of marketisation from local community traditions is bound to give free play to “corrupt” monopoly-formation. Indeed, as the institutionalisation of local group solidarities cannot possibly hold pace with international city-state dynamics, the embeddedness necessary to produce sound economic growth would be lacking. The insight that is lost with regard to this last point, is that dynamics of marketisation are also driven by traditions of civilisation, be they of a more personalistic, city-state kind. As argued by Weber (1922: 635, 636, 640), not only is market exchange the “archetype of all rational social action”, it also is the “most impersonal” and most “peaceful form” of “practical life into which humans can enter with one another”. Indeed, since the Middle Ages, “the intensive expansion of exchange relations has always gone together with a process of relative pacification”. Because of its “matter-of-factness” and “impersonal universality”, market exchange historically has functioned to create a level-playing field

which in principle anyone can join on the same impersonal footing. What is more, from the late eighteenth century on, market exchange became the ultimate instance of managing processes of active and passive democratisation in many West European countries and the United States. That is because extending market exchange is one important way to both allow for more competition between established and outsider groups and increase the likelihood of reaching more satisfactory settlements. Not surprisingly, given the dominance of traditions of local embeddedness, the international cooperative movement never really flourished, but remained botched under the weight of territorial particularisms.

Remarkably, similar to liberal-utilitarians, social-communitarians often use evidence of cooperative involvement in politics as proof of their decline<sup>78</sup> (e.g. Hirst, 1994; Youngjohns, 1954). Indeed, starting with Owen and continuing all the way to Hirst and Putnam, social-communitarians – obviously not State-communitarians – have consistently disregarded the reality of politics as a center of democratisation. This disparaging of politics is grounded in the belief that civic “spheres of justice” make more of a difference to creating a good society than any State apparatus will ever be able to (Walzer, 1983).

Summarising quickly, social-communitarian accounts<sup>79</sup> of industrial democracy suffer from the normative idea that cooperatives should have been part of a civic movement antagonistic of any “alienating materialism” and driven by moral idealism. “Owenism” and structural determinism - prophecies of a “Cooperative commonwealth – have been privileged over strategies of democratisation that actually work.<sup>80</sup>

### **3.4 A “republican settlement” theory of the firm**

In this section, I propose a “republican settlement” theory of the firm capable of integrating the strengths and avoiding the weaknesses of liberal-utilitarian and social-communitarian theories. How do assumptions of republican settlement theory differ from their utilitarian and communitarian counterparts? In table 3.3, I draw a comparison between the the three theories across the six characteristics presented in table 3.2. First, there is the question of the locus of democratisation, i.e. the field which should be targeted to alleviate grievances of democratic deficit. Contrary to social-communitarianism and liberal-utilitarianism, republican settlement theory portrays markets, politics and civic society as different, but equally valuable spheres of democratisation.<sup>81</sup> Furthermore, a settlement has to be found in popular opinion as to the autonomy of and relation between these different spheres. Second, there is the question of the unit of democratisation which is assumed in each theory of the firm. While communitarians and liberals have a different view on what this unit should be, they both share the belief that democratisation should be geared towards the fulfillment of man’s basic nature, i.e. either a world made up of autonomous individuals or a world of cohesive communities (Brugger, 1999: 19). Historical republicans, on the contrary, do not see democratisation as leading to an absolute virtuous endpoint, but as a situational and never-ending process. That is because in republican settlement theory, democratic virtue is the result of ongoing competition between established and outsider groups or individuals.

Third, there is the question of the logics of democratisation emphasised by the theories. An interesting paradox arises here, to do with how stale historical ideals of established and outsider dynamics have led to a gap between the reality espoused and the reality enacted by utilitarians and communitarians. The worldview espoused by social-communitarian theory is one of pre-modern communities disrupted by new utilitarian

groups. As communitarians often believe that the communities they represent have unrightfully become outsiders, they often disregard the extent to which, on the one hand, the interests they represent actually have become special and not majority interests, and, on the other hand, other “new bourgeois” logics have become much more established in popular opinion.

Liberal-utilitarians, for their part, often espouse a logic of outsiders. In the same vein as Weber’s seventeenth century protestant capitalists, they theorise that the market is the new source of equality of opportunity for all individuals. In actuality, however, the individuals they represent often have adopted a very established lifestyle and a special interest in thwarting the emancipatory power of markets. In contrast with communitarianism and utilitarianism, republican settlement theory avowedly holds all four logics of democratisation in equal regard. That is because republicans see political, civic and economic virtues as equally important, and democratisation as dependent on rivalries between established and outsider groups across these three domains of reality.

Fourth, there is the question “what is the main source of corruption?” Republicans maintain that both liberal-utilitarians’ sole emphasis on eradicating group interests and social-communitarians overwhelming aversion for self-interest actually increases corruption; the result in the first case is individual sectarianism, and in the second case group totalitarianism. Instead, republican settlement theory advocates a focus on corruption as any type of “domination”; it does not discriminate between domination by individuals or groups, political, civic or economic actors. Also, in contrast with liberal-utilitarians and social-communitarians, republicans see corruption as systemic and functional. In particular, republicans see grievances of corruption as a main driver of competition between the establishment and outsiders. Obviously, corruption has to be combated, but there is no final solution to this problem. All established and outsider groups and individuals can do is to temporarily settle their differences, and await a new round of rivalry. In sum, republican settlement theory sees a lack of opportunities of contestability and mobility in the relation between the establishment and outsiders as the main source of corruption.

Fifth, there is the question of what type of organisational character firms should develop to combat corruption. Republican theorists do agree with liberal-utilitarians that some degree of separation of markets from the civic and political domains should be instituted. Thus, republican settlement theory is not against “global” capitalism – capitalism by interconnected city-states. Where republicans do not agree with liberal-utilitarians, however, is about the premise that separation of the domains is enough. Apart from the “art of separation” (Walzer, 1984), they maintain that the “art of integration” of economic, civic and political issues should also be cultivated. The particular critique here is that liberal-utilitarians do not go beyond the idea of “absence of restraint” in their perspectives on liberty and democratisation (Pettit, 1997; Skinner, 1998). Absence of restraint should be accompanied by contestation of power and calls for legitimacy; this refers to the concept of “liberty as non-domination” (Pettit, 1993; Skinner, 2002). To ensure such freedom and maintain the meaningfulness of democratisation processes for a majority of citizens, a degree of territorialism or “provincialism” is necessary. The promotion of territorial traditions not only serves to counterbalance the concentration of unaccountable power that accompanies unrestrained “globalisation”. Paradoxically, it also serves to create a more legitimate type of international capitalism.

**Table 3.3: Three theories of the firm**

	<b>Social-communitarian theory</b>	<b>Liberal – utilitarian theory</b>	<b>Republican settlement theory</b>
<b>Main source of democratisation</b>	Civil society	Market	- Market, Civil society, Politics - Settlement in popular Opinion
<b>Unit of democratisation</b>	Cohesive community	Autonomous individuals	Rivalling established and outsider groups <sup>82 83</sup>
<b>Logics of democratisation</b>	<u>Espoused:</u> logic of establishment  <u>Actual:</u> logics of outsider and special interest	<u>Espoused:</u> logic of outsider  <u>Actual:</u> logics of establishment and selective incentive	- Logic of selective incentive - Logic of established - Logic of outsider - Logic of special interest
<b>Main source of corruption</b>	Domination of self-interest	Domination of special group interests	- Domination by State, civil society <sup>84</sup> or market actors - Lack of level- playing field for rivalry between establishment and outsiders - i.e. lack of contestability & mobility
<b>Character of the firm</b>	- Civic virtue - Territoriality principle - Active democratisation	- Economic freedom - Personality principle - Active democratisation	- Political, Civic and Economic virtues - Territoriality & Personality principles - Active / Passive
<b>Role of the State</b>	Servant of civic communities <sup>85</sup>	Guarantor of stability (property rights) and non-interference in markets	Encourage public-private collaboration with “non-domination” by any group or person

Clearly, republicans also take issue with communitarians' advocacy of integration of the three domains into one field of action, for two reasons. On the one hand, the integration of the three domains could leave the door open for policies of totalitarianism (cf. Arendt, 1951) or authoritarianism (Frazer, 1999). On the other hand, the notion of loyalty to community traditions denies the corrupting effects of too much cohesion and provincialism, and the positive effects of outsiders trying to break down established monopolies.

Contrary to liberal and communitarian assumptions, proponents of republican settlement theory argue that active democratisation can only be effected by participants that have acquired enough "competence", i.e. those who have internalised enough normative and material authority (f.i. Barber, 1992)<sup>86</sup>. Republicans argue that it is an unworkable fiction to expect that each of us would acquire a competent opinion about all affairs of democratic interest (cf. Lippmann, 1997 [1922]: 19). In doing this, republicans take issue with both liberal-utilitarians and social-communitarians.

A last difference between republican settlement theory and the other two perspectives concerns the role of the State. Contrary to liberal-utilitarians and social-communitarians, republicans see a strong and autonomous political system as a primary means – rather than an end – of democratisation (Bellamy 1992: 259).<sup>87</sup> In particular, the centrepiece of republican thought is a *strong constitutionalist state*. Constitution here has to be interpreted in its broadest sense, as combining both informal and formal interpretations of traditions of democratisation. This serves the reality of varieties of constitutions well, since for historical reasons some constitutions – such as the US constitution – are more formalised than others – e.g. the English and Dutch constitutions which exist largely in informal, unwritten terms only.<sup>88</sup> In fact, the acceptance of the equivalence of informal traditions and formal rules distinguishes republican settlement theory from other types of republicanism. Most republicans, however, agree that a strong constitutionalist state should be grounded in the principle of opposition to arbitrariness and a clear notion of the public interest which is not simply the result of group pressure – be it from established or outsider groups. Such a state is sustained by a belief that, while politics has to operate in a relatively autonomous field, it still should be supported by a majority of popular sovereignty to increase the chances of finding an appropriate mode of coordination with civic and economic actors.<sup>89</sup>

### **3.5 Logics of democratisation: six propositions about their strategic interplay**

In this section, I present six propositions about the democratisation strategies firms need to develop for long-term success. These propositions apply to both mutual and commercial firms, whether these operate in so-called liberal-utilitarian or social-communitarian nation-states. The six propositions deal with each possible relational pair of the four logics of democratisation: the logics of establishment, outsiders, selective incentive and special interests. Besides the four logics of democratisation, the propositions draw on the following assumptions of republican settlement theory. First, the possibility of competition between established and outsider actors is a precondition to the viability of any strategy of democratisation. Second, following one's nation-state's historical success model is critical to obtaining a sustainable settlement between established actors and

outsiders; although this has to be complemented with geopolitical buffers against dominant foreign traditions. Third, the most sustainable form of success is based on “non-domination” of others, as perceived by a majority of stakeholders – customers, shareholders, employees, political and civic groups. Fourth, firms’ success depends on their capacity to co-construct new democratic settlements. Fifth, those settlements which prevail are the ones that are more complementary than other alternatives with the promotion of all three republican virtues: an effective State, a vigorous civil society and economic wealth. Sixth, finding such superior complementarities depends on the ability to realise an acceptable trade-off between dynamics of active and passive democratisation – minority and consensus democratisation. In other words, in their capacity of switching points between processes of active and passive democratisation, firms have to decide what stakeholders – customers, shareholders, employees, political and civic groups – belong to “elected” and which ones to “follower” groups.

The following six propositions specify the different strategies firms need to develop to ensure a favourable vantage point in democratic settlements – a main lever for long-term success:

**Strategy a)** relation between logics of outsider (civil society) and selective incentive (market)

**Firms’ success depends on their ability to help core customers fulfil their social mobility aspirations**

**Strategy b)** relation between logics of establishment (civil society) and selective incentive (market)

**Firms’ success depends on their ability to cater to customers of different social classes**

Practically speaking, the above means that firms have to foster the social mobility of aspiring social classes with their economic propositions (strategy a). Simultaneously, firms’ economic propositions need to mitigate resentment and feelings of extremity between the different social classes, by providing all with products and services adapted to their own needs and abilities (strategy b).

Strategy a is essentially a coordination strategy, aimed at minority democratisation. Strategy b, by contrast, is a cooperation strategy, aimed at consensual democratisation.

Propositions a and b draw on the following assumptions of republican settlement theory. First, building a sustainable competitive advantage depends on the ability to find new complementarities between issues relating to both economic wealth and social status, i.e. issues of social-economic class. Second, firms’ success depends on their ability to find an appropriate trade-off between core and non-core stakeholders – minority and consensus democratisation target groups. The first group should be mobilised on the basis of participants’ competence in embracing and promoting that economic rationale which, while not yet part of established market practices, is considered by an avant-garde to strike a better balance between the problems of social mobility and economic efficiency. Clearly, this avant-garde by definition represents a minority. The second group should be mobilised on the basis of the duty to make as many social classes as possible take ownership of market practices, so as to facilitate consensus amongst the social classes. By default of such an appropriate trade-off between core and non-core participants on the

basis of respectively competence and duty, firms' will not be successful in the longer term, as their growth will be perceived as corrupting rather than as sound.

**Strategy c)** relation between logics of outsider (civil society) and special interests (politics)

**Firms' success depends on their ability to make State policy on economic citizenship by "fait accompli"**

**Strategy d)** relation between logics of establishment (civil society) and special interests (politics)

**Firms' success depends on their ability to translate State policy on economic citizenship in services and products**

Practically speaking, the above means that firms have to come up with an innovative economic proposition: one that relieves the State from the responsibility to test ideas that are promising, yet risky policy-wise; *allowing the State to sit back and make policy on a platform of fait accompli* (strategy c). Simultaneously, firms need to help build a consensus about existing State policy, by translating it in a set of economic propositions adapted to different types of citizens' abilities and needs (strategy d). If successful in their execution of these two strategies, firms play an immensely important role, both regarding the innovativeness and effectiveness of State policy, and in terms of maintaining trust in the workings of parliamentary democracy, the universal suffrage, institutional employer-employee relations, and other signifiers of democratic capitalism.

Strategy c is essentially a coordination strategy, aimed at minority democratisation. Strategy d, by contrast, is a cooperation strategy, aimed at consensual democratisation.

Propositions c and d draw on the following two assumptions. First, firms' success depends on their ability to find complementarities between issues related to civic participation, and the development of effective economic policies by the State. In other words, a firm's success depends on its ability to become a vehicle of economic citizenship, i.e. ensure that societal stakeholders see a firm as a rightful provider of economic opportunities; and encourage people to participate in and take ownership of economic policy goals. Second, firms' success depends on their ability to find an appropriate organisational trade-off between core and non-core stakeholders – minority and consensus democratisation target groups. The first group should be mobilised on the basis of participants' competence in embracing those new economic policies which are perceived by a minority of citizens to be a better guarantee than other alternatives for the promotion of civic freedoms/virtues. The second group should be mobilised on the basis of the duty to expand a minimum level of economic citizenship to as many people as possible, so as to improve consensus between groups of citizens with conflicting preferences. Again, by default of such an appropriate trade-off between core and non-core participants on the basis of respectively competence and duty, firms' will not be successful in the longer term, as their growth will be perceived as corrupting rather than as sound.

**Strategy e)** relation between logics of establishment and outsider (civil society)

**Firms' success depends on their ability to become a champion of national character**

Practically speaking, this proposition means that firms have to become national champions of their countries' distinctive competences and success model.

Strategy e entails a re-combination of personality and territoriality principles, taking into account the recombination of minority and consensus principles in strategy f.

This proposition draws on the following assumptions. First, democratisation is a double process of nationalisation, involving a reinvention of rivalling provincial and cosmopolitan nationalisms, followed by a settlement between proponents of either thrust in a later stage. To capture a majority of social classes, rivalling proponents try to gain a central position in popular opinion, so as to be able to determine what the publicly promoted national character should be. Simultaneously, they need to mobilise enough cooperation for the change project from social classes who prefer another national character, by allowing the latter sufficient space for self-determination (privacy). In other words, settlements about national character come in terms of public-private compromises. And firms' success depends on their ability to contribute to such compromises.

**Strategy f)** relation between logics of special interest (politics) & selective incentive (market)

**Firms' success depends on their ability to become a champion of the national economic interest.**

Practically speaking, this proposition means that firms have to delegate the promotion of their special interests to (one or more) self-regulating bodies that are viewed as serving the national economic interest. Such a self-regulating body evidently should be considered a leading vehicle of public-private collaboration.

Strategy f entails a re-combination of minority (particular firms' interests) and consensus (national interest) principles, taking into account strategy e.

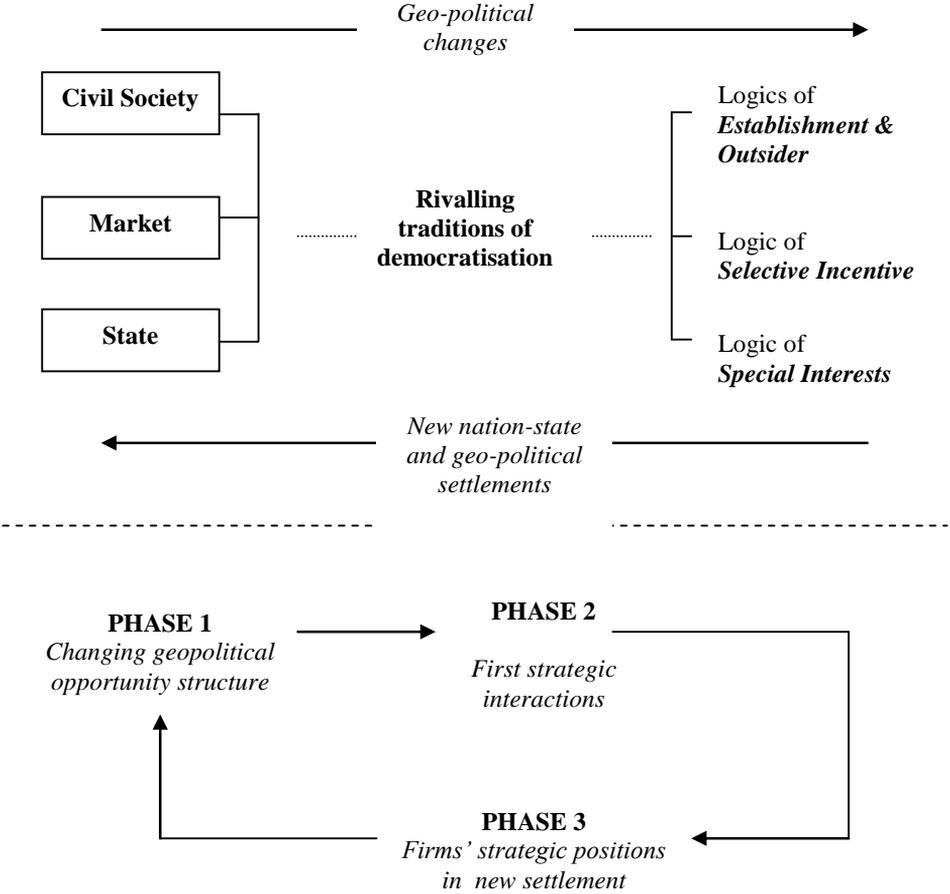
This proposition draws on the following assumptions. Continuing nation-state success involves the ability to serve the national economic interest in a way that is least conducive to domination by any special interest, whether provincial or city-oriented. For firms, success depends on the ability to defend one's interests while avoiding the perception that one is undermining the larger national economic interest within a certain geopolitical constellation. Thus, what firms have to avoid at all cost is that the interest groups with which they are associated are considered sectarian, i.e. are perceived by a majority of economic citizens as not contributing to the promotion of the national economic interest. To be perceived as a non-sectarian vehicle of the national economic interest, firms have to rely on bodies with a public-private character such as advisory committees and self-regulating industry associations. Following proposition e, these public-private bodies need to be able to gain a central position in matters of the national economic interest. Simultaneously, they need to project an image that they are not hampering cooperation with the change projects of other interest groups – in particular these groups' bid for self-determination. Thus, in order to secure an appearance of non-sectarian interest group promotion, firms have to defend their interests through compromise and a mixture of public and private organisations and causes.<sup>90</sup>

### **3.6 Framework for firms' strategies of democratisation**

In this final section, I develop a conceptual framework for studying the relation between firms' long-term success and their strategies of democratisation – in terms of the

six propositions presented above. The endgame of this developmental effort, is to use the framework as a guideline to empirical data collection and analysis in chapters 6 to 11.

**Figure 3.2: Democratisation dynamics and firms’ strategic positioning in settlements**



Following the discussion in section 2.4, the relation between firms’ strategies of democratisation and their successful positioning in nation-state settlements can be studied in terms of three analytical phases (see figure 3.2). In a first, structural phase, contradictions between geopolitical and nation-state realities emerge. If an “insurgent consciousness” (McAdam, 1982) about these contradictions takes shape – signalling the loss of authority of the establishment, we enter a second actor-oriented phase, in which emergent elites attack the old corruption of the establishment, and established elites react

with their own grievances of democratic deficit. In this phase, it is up to firms' leaders to take advantage of these opportunities of democratisation, by devising new strategies of democratisation – involving minority and consensus, personality and territoriality, economic, political and civil dynamics of democratisation. In a third, structural phase, democratic settlements are institutionalised. The type of democratic settlements that win out are those that create the best complementarities between geopolitical changes, and three nation-state virtues: the development of an effective State, economic wealth and civic cohesion. Depending on firms' ability to act in accordance with the six propositions stipulated in section 3.5 and take an active role in the construction of settlements, their competitive position becomes stronger or weaker.

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<sup>57</sup> National self-determination denotes “the belief that [a] nation has a right to constitute an independent state and determine its own government” (Cobban, 1969: 39). About the nominal connection between nationalism, popular sovereignty, and democracy, see also Kemiläinen (1993) and Gellner (1997).

<sup>58</sup> In this manuscript, I shall refer to a “popular opinion” rather than the more frequently used label “public opinion” for two reasons. First, by popular opinion I mean an area of action blurring the boundaries between the public and the private. The label “public” is misleading in this regard. Second, popular opinion is the area in which “popular sovereignty” is expressed and shaped. (This is a repeat of footnote 5 in chapter 1).

<sup>59</sup> “Status” here refers to “a structural position within the social system”, and “role” is “what the actor does in such a position, seen in the context of its functional significance for the larger system” (Ritzer, 1992: 356).

<sup>60</sup> Civil society organisations are voluntary groupings of citizens. Examples are labour unions, professional associations, and an infinite variety of cultural, social, developmental, identity-based, issue-oriented, territorial, and other types of groups. To the extent that political and economic organisations are populated by voluntary groupings of citizens, these latter organisations also have to take into account norms of civic behaviour.

<sup>61</sup> For an elucidation of the confusion arising with the terms “politics” and “political”, see Appendix A (section 3).

<sup>62</sup> Both politics and markets are structured according to patterns of material authority, i.e. the structural capacity of agencies to influence other actors through sheer accumulation of size and visibility. Civil society, on the other hand, is a normative field. Thus, in contrast with politics and markets which are constituted by more or less visualisable practices – electoral programmes or parliamentary systems, shops or internet auctions – civic society is constituted of status communities sharing the more amorphous practice of “lifestyles”.

<sup>63</sup> The concept of level-playing field in this case more or less corresponds to Nettl's notion of an “area of normlessness” (1968: 588).

<sup>64</sup> While the logics of selective incentive and special interests concern different target groups, respectively authorities in State and market participants, they both relate to the same component of purposiveness: the material “cash-value” of instrumental-rational agency. In the case of the logic of special interest this cash-value comes in terms of the use of public means for special interest purposes. In case of the logic of selective incentive, on the other hand, cash value is effected through the creation of market utility. By contrast, the logics of establishment and outsider concern another dynamic of democratisation: the creation of groups in terms of higher values or civic norms. This requires the formation of general-purpose lifestyles – “generalised others” (cf. Mead. 1934: 386) – that surpass instrumental forms of allegiance.

<sup>65</sup> By contrast, the logics of establishment and outsider concern another component of purposiveness: the value-rational creation of a “generalised other” (cf. Mead. 1934: 386).

<sup>66</sup> This of course is a main theme in Norbert Elias' work. Describing the establishment-outsider mechanism, Elias (1965: I) notes that “one of the standard devices of an establishment under strain is that of tightening the restraints that its members impose upon themselves, as well as upon the wider group ruled by it.” The “observance” of the internalisation of “these restraints” can then be used as “a sign both of one's own group charisma and the disgrace of outsiders”. As a result, “contact with outsiders threatens an ‘insider’ with the lowering of their own status within the established group” (Elias, 1965: xxiv). What Elias does not point out, however, is that “outsiders” can do something similar. Indeed, while avoiding corrupting “established” influences, they can reinforce their status of being different by embodying a degree of self-restraint which in time will also have to be adopted by the establishment.

<sup>67</sup> The differences between liberal-utilitarian and social-communitarian theories of Cooperative organisations can be traced back to the more general-purpose organisational views defended by respectively Alfred Chandler and Philip Selznick. For a comparison of Chandler's liberal-utilitarian perspective and Selznick's social-communitarian views, see Appendix A, section 4.

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<sup>68</sup> Again, in contrast to social-communitarians, for state-communitarians the State is not just a servant, but embodies entire civic community.

<sup>69</sup> The claim about the *raison d'être* of cooperatives builds on the more general observation first made by Coase (1937) and popularised by Williamson (1975), that firms emerge historically from market failures to economise on transaction costs of production – especially monitoring efforts to ensure compliance with contractual agreements. In this light, it is remarkable that public commercial companies, because of their reliance on more impersonal stocks and governance mechanisms favouring “exit-mechanisms”, often are depicted as a natural part of an efficient market, not as a countervailing power. So, for instance Williamson (1985: 267) claims that equity ownership is subject to greater hazard in the cooperative firm. Undoubtedly, liberal-utilitarians favour exit over voice, as transpires in the widely held assumption that exit belongs to the realm of economics and voice to the realm of politics (Hirschman, 1970: 15).

<sup>70</sup> According to liberal-utilitarians, human agency is governed by the laws of individual self-interest, opportunism and instrumental-economic rationalisation.

<sup>71</sup> Of course, Marx rejected Cooperatives as a communitarian alternative within a capitalist system. According to him and his followers, in such a system Cooperatives were a waste of effort, a distraction from the necessary political and economic class struggle. Within a capitalist system, Cooperatives stood no chance of helping workers. Polanyi had little sympathy for Marx’ argument that politics is simply a superstructure reflecting power relations defined in economic terms. While Marx saw Cooperatives as a viable organisational form in a non-capitalist political system, Polanyi did encourage Cooperatives as a reformist organisational form within a market system. Contra Marx, Polanyi argues that, because Cooperatives transcend narrowly conceived class interests and promise to protect society as a whole, they are more likely to succeed in their endeavour to reembed economic relations in substantive ethics. Nevertheless, by depicting Co-operatives as the collective efforts of workers and ordinary people to defend themselves against the self-regulating market system, Polanyi eventually entrenches in the same anti-capitalist – i.e. anti economic instrumentalisation – reductionism as Marx.

<sup>72</sup> So, for Polanyi (1957: 250) “the market has been the outcome of a conscious and often violent intervention on the part of government which imposed the market organisation on society for non-economic ends”.

<sup>73</sup> According to Richards (1929: 215) “despite the prevailing economic paternalism of the State, a philosophy of *laissez-faire* gained ground in England after the Civil War”, mainly through the emergence of a system of free trade finance.

<sup>74</sup> At the most general level by “double movement” is meant that when “cosmopolitan” elites organise to separate the political and the economic to their material advantage, less advantaged territorial groups typically organise a countermovement to reunite both fields in a society-protecting, communitarian way.

<sup>75</sup> This happened against the grain of many cooperators who resisted the subordinate role assigned to their movement by collectivists like Webb and had little enthusiasm for the State-supported cooperation advocated by Woolf (1919).

<sup>76</sup> Similarly, Webb and Woolf articulated the derogatory notion that workers were attracted to cooperation mainly for what they could get out of it, namely the dividend. More idealism was needed in their eyes to make the cooperative movement attain its purposes. And this necessarily had to be supplied by outside experts like themselves.

<sup>77</sup> “Owenite phase” connotes a form of methodological individualism which postulates that Robert Owen’s influence was decisive for and omnipresent in the whole Cooperative movement.

<sup>78</sup> So, Hirst (1994: 18), while identifying the English Cooperative movement as part of Socialism, argues that “as the twentieth century progressed, the voluntary and cooperative elements in the British Labour Movement became weaker and weaker...Socialism, once so strong, so pragmatic and fundamentally humane, died through its dependence on the state no less than did the brutal Soviet state collectivist version”.

<sup>79</sup> The problems with the utilitarian accounts are the same as the ones prominent in other transaction cost economy accounts of organisational forms.

<sup>80</sup> As noted by Gurney (1996), there does not seem to be much of a middle way Cooperative literature between the utilitarian and communitarian extremes. One of the few Cooperative theorists notable for having expressed an alternative is the French political economist Gide (1904, 1926). Taking the third way of a “republican” stance, Gide set forth the idea of a cooperative Republic. Such a republic, Gide advocated, would consist both of an effective State and the largest possible number of different associations able to take co-responsibility for the affairs of the State. In a nutshell, Gide advanced a theory of public-private collaboration which included both elements of utilitarianism and communitarianism. Most notably, Gide claims that it is not immoral to suppose that the subject is self-interested, only reasonable. Indeed, in order for the subject to be willing to take part in a cooperative venture, he must have some hope of gain. Nevertheless, Gide argued, the cooperative provides its members with benefits that are not only material. Each member is able to verify for himself that in order for the

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cooperative to last over the long term, its members must heed the public interest. In that way, it is probable that the initial self-interest of the subject will diminish or at least be limited by the development of motivations that are disinterested (Vincent, 2001: 146-147). Still, Giddens' views generally tend in the social-communitarian direction, in two ways. First, he denounces cooperative producer societies as just forms of "collective egoism" lacking any sense of the public interest (Lambert, 1963: 61). On the other hand, his outlook is geared towards local rather than cosmopolitan dynamics.

<sup>81</sup> Given the particular focus on the political and civic in most republican theories, however, discussion of economic virtues has remained underdeveloped.

<sup>82</sup> According to republican theory, the purpose of this struggle between established and outsider groups is to find a mode of coordination which best ensures economic growth, civic virtue and political autonomy.

<sup>83</sup> According to Machiavellian republican theory, overall struggle is healthy and necessary, even it takes violent proportions (cf. Shumer, 1979: 30). The kind of republicanism I profess, sees the (physical) violence aspect as a last resort, which even then remains extremely dangerous, as it often reinforces traditions of factional discord rather than the recombination of rivaling traditions in a "common wealth" perspective.

<sup>84</sup> For instance an overbearing influence by religious groups.

<sup>85</sup> Again, in contrast to social-communitarians, for state-communitarians the State is not just a servant, but embodies entire civic community.

<sup>86</sup> Republican theorists tend to underemphasise the internalisation of material authority as a measure of competence, though the ancient Greek ideas of for instance Cicero they draw upon explicitly assume this.

<sup>87</sup> Indeed, much more than either liberal theory, which sees a minimal State and a large private sphere as conditions to democratisation, or communitarian theory, which sees the political field – as just one amongst other parts of the public sphere, republican theory emphasizes that the development of a strong and autonomous political apparatus is a crucial condition to further democratisation.

<sup>88</sup> The main difference between the US and Dutch elites who drafted their respective constitutions, is that the former were much more unified in their concern for absolutism by the "people", i.e. infringement on property rights by the "lower" rather than the "higher" ranks (Oosterhagen, 2000 : 364). Indeed, one of the triggers for US elites, particularly landowners and propertied citizens, to urge for a new federalist constitution in the years preceding 1787, was the increasing influence wielded by the "lower classes" through the different State Assemblies and Conventions. Unified in their fear of democratic despotism by an interested and overbearing majority, the founding fathers of the US constitution were motivated by the belief that popular participation in government had increased to such an extent as to be incompatible with free government (Dietz and Hamilton, 1960 : 131). In particular the issuing of paper-money-laws at the State level was seen as a threat to the value of traditional property in the US. - against paper-money factions that had come to power in several states, Madison said that the Constitution's prohibiting the states from emitting bills of credit ..."the loss which America has sustained since the peace...from the pestilent effects of paper money on the necessary confidence between man and man, on the necessary confidence in public councils, on the industry and morals of the people, and on the character of republican government, constitutes an enormous debt against the States chargeable with this unadvised measure..." (Dietz and Hamilton, 1960 : 13). As a result, the US federalist elites made it their task to circumscribe clearly how popular opinion should be guided in ways congruent with the national interest, by, on the one hand, stipulating clear boundaries between counterbalancing representative bodies, and, on the other hand, ensuring a central place to a council of "wise men", namely the Supreme Court. Similarly, the constant respect paid to the tradition of the "founding fathers" in US history can be seen as a means to ensure some stability in US popular opinion. On this account, the English traditions are much closer to the Dutch than to the American. Indeed, it can be argued that while the Glorious Revolution led to a clearer "division of powers" framework in England than in the Dutch Republic, in a final analysis the English elites were even more ambiguous about the need for clear constitutional rules about the role of the State vis a vis civil society.

<sup>89</sup> Republican theorists in effect see the people as entrusting the state with the dispensation of non-arbitrary rule (Pettit, 1997: 8).

<sup>90</sup> Firms' success also depends on the ability of their special interest group representatives to enjoy some autonomy from their members/customers. That is because such autonomy greatly increases the bargaining power of representatives to negotiate a measure of self-determination with other agencies (Schmitter, 1974; Schmitter and Streeck, 1981, 1991).

## **4. REGENT AND ORANGIST TRADITIONS, AND A DUTCH SUCCESS MODEL**

### **4.1 Introduction**

In this chapter, I briefly set out the two main sets of of rivalling traditions that emerged and consolidated in the Dutch Republic in the sixteenth, seventeenth and eighteenth centuries: the « Regent » and « Orangist » traditions of democratisation (4.2). For an elaboration of these two types of traditions, I refer to Appendix A, sections 1 and 2. In a subsequent section (4.3), I discuss how each one of the five Regent and Orangist traditions of democratisation emerged as the result of a combination of strategic problem-solving and and happy accidents with long-lasting effects. Successive, partial settlements – spanning multiple generations of leaders – ultimately, and by happy accident as much as original intentions, would lead to a simple Dutch success model. Future generations would endeavour to reproduce this success model time and again – up to this very moment, by virtue of its association with the Dutch Golden Age. Finally (4.4), I discuss what the reasons for the decline of the Dutch success model were during the eighteenth and early nineteenth centuries. This story of decline serves as an introduction to chapter 6.

### **4.2 Regent and Orangist traditions of democratisation**

The traditions of democratisation that follow are partly grounded in the behaviour of the original groups of Regents and Orangists. The label Orangist evidently refers to the adherents of the Orange family, which served as “stadtholders” in the Dutch Republic. Orangists were predominantly from the church and the army. Calvinist ministers saw the stadtholders as the custodians of true religion, and army officers regarded the stadtholders, who favored the maintenance of the corporate autonomy of civic militias, as a source of patronage (Jacob and Mijnhart, 1992b: 342). Because they strove to strengthen the position of the Estates General and the unity of the provinces, the Oranges were the natural opponents of the city-state Regents. The denominator “Regent”<sup>91</sup> refers to those mercantile groups who defended the sovereign rights and autonomy of city-states in the Dutch Republic. Regents were usually led by the grand pensionaries of Holland; they mainly focused their efforts on protecting the openness of the Holland cities to foreign trade and economic spill-overs, among others by expanding the Dutch “Imperium maris and international trade” (Gelder, 1918: 41).<sup>92</sup>

The Regent and Orangist traditions to some extent are also the product of imagination. For one, successive Regent and Orangist generations have had to learn to reframe and reinvent these traditions to suit their own contemporary needs. So, the rhetoric of Orangists was different in times when the Prince of Orange held the official position of « Stadtholder» than in times when the Regents ruled alone and the Dutch Republic did not have a Stadtholder – from 1650 to 1672 and from 1702 to 1747. All in all, the two traditions have remained fairly continuous, however. While the Regent tradition promotes a more economic nationalism, the Orangist tradition involves the promotion of a civic nationalism. Compared with its English Tory equivalent, Orangist nationalism was very weak up to the nineteenth century. Yet, this does not mean that the Orangist republican

traditions were weak, and that the Dutch did not rally around the Orange stadtholders. Successive wars against the Habsburgs, English and French were not sustained by virtue of emotional attachment to a Dutch nation or state, but by virtue of a strong sense of territorial independence of an altogether more fragmented nature – provincial, city and village affiliations. Thus, if during these successive wars, that disparate variety of people called the Dutch united around the Oranges, it was to protect their local privileges – whether economic, religious or otherwise (‘t Hart, 1993: 221).

The sixteenth century settlement between rivalling Orangist and Regent groups which allowed the Dutch Republic to enjoy its Golden Age in the seventeenth century was based on the resolution of two leadership problems. As explained in chapter 1, leadership problems consist of interdependent coordination and cooperation problems. The problem of coordination in the Republic was resolved by turning the threat of invasion by Great Powers into an opportunity to create an interprovincial rallying cry of a common « foreign enemy ». Anti-papist ideology served the same purpose. Both the threat of invasion and anti-papism were used to legitimise a tradition of «sound money » in the Republic’s constitution: *City monetarism*. This tradition is grounded in Antwerp and Amsterdam city-states’ merchant classes’ historical experiences. Bulwarks of the “personality principle”, these city-states had provided first generation merchant upstarts – with little political clout in the empire – the opportunity to increase their financial wealth and gain a higher status. A condition to such a higher status was the ability to circumvent “arbitrary” political and fiscal encroachment by the Habsburgs, and guarantee international monetary movements at a distance from central State intervention. This tradition for two centuries would ensure low and stable interest rates on the Amsterdam stock exchange – in contradistinction of old usury principles, and guarantee unlimited possibilities of stockjobbing to anyone who wanted – be they foreign or domestic investors. What is more, during the seventeenth century no city was home to such a large jockstobbing class than Amsterdam. The Verenigde Oost-Indische Compagnie was a flagship of such widespread stockjobbing and private ownership activity (De Heer, 1929; Gaastra, 2002; Robins, 2006) . Beyond a mere solution to coordination problems, this demonstrates the potential consensus-inducing side of the monetarism tradition too. Indeed, the invention of an unrestricted prolongation market in the eighteenth century, which became very popular during the nineteenth century – due to decisive backing from Amsterdam and central authorities (see p. 81) , again would illustrate the success of City monetarism as a solution to cooperation problems.

Another solution to coordination problems was found in the Orangist *pacification* tradition, i.e. the principle that rivalling factions should depoliticise and resolve civic differences – religious or otherwise – in elitist decision-making bodies. Furthermore, people should not let their differences get the better of national prosperity and concord by learning to live together apart. The tradition of pacification obviously has a geopolitical side too. The Dutch were notorious – even amongst the fellow « anti-papist » Englishmen – for their pragmatism when it came to foreign commerce and settlement (Boxer, 1965). What other protestant, anti-papist nation would have had the common sense to mobilise Catholic priests, with the mission to inculcate the natives in its colonies with sufficient work discipline? In sum, Dutch elites became renowned for their willingness to pacify geopolitical antagonisms to facilitate international commerce – most strikingly the Dutch Stadtholder William’s willingness to facilitate his old enemy’s royal succession and a stable international payment system between Amsterdam and London. The prevalence of Dutch city merchants as the leading class in the Republic explains the Dutch habitus to

pacify conflicts. Instead of a military style of armed conflict, the art of governing with the help of negotiation and compromise was passed on first from the city of Antwerp (Tawney, 1926), and later from Amsterdam and Utrecht.<sup>93</sup>

The problem of cooperation, on the other hand, was resolved by ensuring that stock exchange and taxation mechanisms would be proportional to strength, and thus relatively redistributive.<sup>94</sup> For one, participation in the Amsterdam stock exchange was more inclusive of the middling ranks than other exchanges in the seventeenth century (Van Dillen, 1934). Also, the Holland Regents agreed to carry a higher share of the taxation burden – a burden which was relatively easy to bear in 1600, when Europe’s centre of economic gravity lay in Amsterdam (Ormrod, 2003: 335). Redistribution through a tradition of *proportionality* would come to support idiosyncratic habits of « tactical tolerance » in the Dutch Republic and later the Netherlands (Van Doorn 1989: 39), involving a willingness to compromise and stay on speaking terms on the part of different religious and cultural minorities. A second solution to cooperation problems was found in a principle of *Orangist democracy*: the republican principle that Orangist stadtholders would always protect the age-old privileges and rights of particularly the lower middle classes from encroachment by those that did not respect the natural balance and integration of the social classes.

Finally, in many ways the *living-together-apart* principle is the Regent answer to Orangist traditions, in particular Orangists’ preference to pacify differences by virtue of a unitary state. The principle of living-together-apart ensured that as many powers as possible were devolved from a central State apparatus to leading local families – prompting descriptions of the Republic as a « familial State ». The continued popularity of the complementarity policies of pacification and living-together-apart in Dutch history has its origin in a particular « common sense » principle. Because of the heterogenous and locally oriented character of the Dutch nation, real peace can never be reached and one should strive for a pragmatic armistice between all different groups – continued overt antagonism can only damage the common good (Kruijt, 1959; Van Elteren, 1998: 71).

In sum, the combination of the living together apart and pacification traditions encapsulates two contradictory tendencies, whose dialectical synthesis can be summarised as “practical nonconformism”. In Dutch mythology, the Republic was the new promised land for protestant people. At the same time, the confederal nature and small size of the Republic pushed the Dutch towards an immense geopolitical pragmatism. Thus, the geopolitical success of the Republic was due to an ability to marry confederalism – a pronounced provincialism and sense of local difference, to the pragmatic imperative to be at the forefront of emerging international standards and agreements – pacify or remain neutral in international conflicts.

### **4.3. Happy accidents, partial settlements and a simple Dutch success model**

In what follows, I shall first elaborate on the role of fit-of-absentmindedness in the making of each tradition (4.3.1), and then proceed to describe the emergence and consolidation of a Dutch success model (4.3.2).

#### **4.3.1. Traditions: the role of unintentionality**

##### ***a) Tradition of City monetarism***

The Holland Regents' revolutionary claims of fiscal usurpation notwithstanding, it were the Burgundian and Habsburg Regents that had initiated the most advanced fiscal and monetary innovations in the Low Countries, unintentionally sowing the seeds of an autonomous Dutch Republic. As early as 1515, Habsburg Regents in Brussels persuaded the Provincial States to adopt a new type of provincial annuities. When these Brussels Regents in 1553 convinced the States to abandon the custom of forced buying prevalent in Holland – encouraged by high interest rate levels, this allowed the capital from aspiring classes that flocked to the Low Countries' city-states to flow much more freely into the refinancing of state debt. The end product of Brussels Regents' innovations constituted no less than a financial revolution. It marked the first time in European history that the future revenues of whole provinces could be mobilised for present needs through the mechanism of credit (Tracy, 1985: 221). In sum, the Brussels Regents greatly enhanced the monetary sophistication and solidarity of the Regents in the northern provinces; by fit-of-absentmindedness providing a crucial stepping stone to the formation of the United Provinces.

##### ***b) Traditions of pacification and living-together-apart***

Local agricultural leaders in the northern Low Countries were more unnerved by the challenge of pacifying the sea and rivers during the Middle Ages, than the threat of imperial invasion. Foreign invaders had little appetite to conquer these inhospitable regions, much in the same way the Romans opined of an invasion of Scotland. This provides one explanation why the Dutch developed a living together apart tradition: they were allowed more local independence than their counterparts in the surrounding regions. Still, as the claiming of fields from sea and rivers was labour-intensive, it compelled farmers to remain on speaking terms and work together in a spirit of compromise.

Faced with an ecological crisis in the late Middle Ages – human-induced, although clearly unintentional, the Northern Netherlands completed the transition from arable subsistence economy to market dependent, export oriented economy (Brenner, 2001: 330-331). This transition was accompanied by the gradual transformation of some agricultural commoners into a Regent merchant class in the Holland cities – Amsterdam, Rotterdam and Dordrecht – from the thirteenth century onwards (Israel, 1995). Following in the footsteps of the more consolidated and sophisticated merchant classes in the city of Antwerp, Holland Regents traded financial assistance for the protection of imperial rulers. Thus, the unification of the Low Countries – starting with Flanders and Brabant, and later Holland – happened in a rather pacific, mutually agreeable fashion. Yet, the incorporation of these provinces in the empire would always remain loose, based on the tit-for-tat trading of commercial and administrative privileges and liberties for fiscal revenues; and grounded in a living-together-apart principle, i.e. minimum integration and a maximum of autonomy.

Holland Regents would not have been able to pull off the above and remain on speaking terms with the imperial rules, without the ongoing help of Orangist nobles and their predecessors in Brussels. By virtue of Orangists' skilfull influence on the Burgundian dukes and Habsburg gents in Brussels, the latter were more willing to compromise, and Holland Regents benefited from several imperial spill-overs. The noble predecessors of the Orange family convinced the Burgundian duke not to interfere in Holland's Baltic wars, even it these clashed with the interests of the southern provinces of Flanders and

Brabant. Also, the Burgundian dukes helped curtail the influence of guilds and civic militias in Holland, contributing to an accelerated formation of a Regent oligarchy. A city-state culture developed in Holland, based on the principle that wealth derived from foreign trade was paramount to maintaining the province's privileges and liberties. One condition of uninterrupted access to foreign trade was peace – even if foreign pacification on Holland commercial terms often first involved conquest. Thus, the Holland cities developed the principle that its rulers should be merchants – for whom keeping the peace was a vested personal interest. Then again, peace was premised first on the pacification skills of the Orange Stadtholders, both in political and military terms. It is the Orange network, spanning the Habsburg Regents, French and English rulers, that provided the Regents with the geopolitical buffer to fend off invasion by greater military powers, and come to successive truces and peace agreements.

*c) Tradition of proportionality*

As with the tradition of City monetarism, the tradition of proportionality could not have come about without the help of Burgundian and Habsburg Regents – by fit-of-absentmindedness, as the latter certainly had no autonomous Dutch Republic in mind. So, it is Philip the Good who first instituted the States-General to resolve inter-provincial economic differences. And the same imperial ruler who first proposed to coordinate the provincial currencies and simplify fiscal terms. And it were Habsburg gents in Brussels who first convinced the Provincial States to adopt the principle of collective responsibility in fiscal affairs – implying among other a distribution of fiscal burdens according to provincial strength.

*d) Tradition of Orangist democracy*

The same unintentional causal logic applies to the emergence of a tradition of Orangist democracy. The emergence of a Regent upper class – and a closed hierarchy of public office – in the Holland cities, could not have happened without the Burgundian dukes' complicity in minimising the constitutional influence of guilds and civic militias. This had one important unintentional consequence for the Regents. It increased the need for a counterbalancing power that could promote the interests of the middle classes in Holland, nobles and landlords in the outer provinces. The Orangists would provide this counterbalancing power, by default of Regent constitutional guarantees for the latter groups. Calls for a complementary form of Orangist democracy were so persistent and widespread that the Holland Regents could not withstand calls for the restoration of Orangist stadtholders after the Revolt (cf. Te Brake, 1989).

**4.3.2. Transformation of partial settlements into a simple success model**

The Dutch success model that consolidated during the 17<sup>th</sup> century Golden Age can be summarised as “Dutch nonconformism”: “reinforce local privileges and traditions by pioneering a low-cost and pragmatic geopolitical vantage point; a vantage point conducive to the spill-over of the benefits of dominant international standards, techniques and agreements”. This deceptively simple model emerged as the synthesis and geopolitical apogée of successive, partial settlements spanning three centuries or more, some championed by Regents or Orangists, others mediated by foreign rulers. Crucially, the simple model would not have consolidated if it were not for a succession of happy accidents.

*a) An ecological disaster and the emergence of a low-cost vantage point*

The ecological crisis of the late Middle Ages was primarily human-induced.

The first human-induced disturbances came with the reclamation of raised bogs from around AD 800 onwards (TeBrake, 2000). By virtue of vast projects of draining and canalisation, the immense raised bogs eventually could be transformed into arable country; providing the Holland population with sufficient grain to feed itself, trading little with neighboring territories in years of harvest failure. The added advantage of these reclamation projects was that they produced vast amounts of peat, which provided Holland farmers with cheap fuel and a fledgling merchant class with a first means to acquire a modest, low-cost export vantage point. The latter would soon be transformed in a full-blown bulk trade model, by virtue of the unintended consequences of the reclamation and drainage projects. These projects had the effect of sinking the surface level close to the mean water level of the North Sea. Not only did the relative rising of the groundwater level put an end to agriculture; the ecological crisis that ensued turned the interior of Holland into a a wholly unsustainable environment (Van Dam, 2001).

This did not mean Holland was doomed. On the contrary, this disaster in time would prove a blessing in disguise. It would provide the trigger for Holland and Zeeland elites to leverage several happy accidents. The latter started transferring capital derived from prospering inland activities to sea fishing and long-distance trade, finally exploiting their superb geographic position<sup>95</sup>; this, exactly at a time when the centre of the international economy was shifting from the Mediterranean to the Atlantic coasts of north-western Europe – Antwerp and London. Furthermore, the labour force pushed out of the countryside by the rising waters in the fifteenth century provided the cheap immigrant labour – and cheap peat – necessary for the expansion of internationally competitive industries and trades. These trades had emerged first as a byproduct to the booming peat export trade in areas near raised bogs: cloth manufacturing in Leiden<sup>96</sup>, and the beer breweries in Haarlem and Gouda.<sup>97</sup> Crucially, the cheap, unskilled labour surplus that accrued to the new harbour town of Amsterdam allowed it to rise out of the swamps at an accelerated tempo in the fifteenth century. By 1530, Amsterdam had overtaken the Baltic transit function from Antwerp, by virtue of the former's lower labour costs, and the latter's upward movement in the foreign trade value chain,

***b) The Lutheran William the Silent is embraced by the Catholic Emperor***

When his Catholic cousin and proud defender of the Empire, René of Châlon, Prince of Orange, died childless in 1544, the eleven-year-old Lutheran-born William inherited the title Prince of Orange and vast estates in the Low Countries. The Holy roman emperor Charles V, who was at Chalon's deathbed, decided to replace William as the Brussels Regent until the latter was fit to rule. Being fit to rule implied studying under the supervision of Charles V's sister, Mary of Habsburg, governor of the Low Countries. Besides receiving military and diplomatic training of the highest quality, William received a Catholic education. In time this personal tutelage, and early promotion to imperial commander and member of the States-General, greatly increased the influence and centrality of the Prince of Orange as the main binding factor in the Low Countries. In 1559, William was appointed stadtholder of the provinces Holland, Zeeland, Utrecht and Burgundy by Charles V's successor Philip, thereby greatly increasing William's political power. It is in this position that William built an impressive network spanning the Habsburg Regents, French and English rulers, which he would leverage very pragmatically to further his and other Dutch nobles' privileges.

William remained on speaking terms with the Habsburg governors long after the Dutch Revolt had started. Although he privately funded Calvinist militias, the Prince of

Orange was entirely pragmatic about the Dutch Revolt. He did not see it as a way to build a Republic in service of religious ideals. Up to the very end he supported the Revolt in the hope that it would lead to a consolidation of power in the local nobles' hand, and a pragmatic dilution of the Catholic and Protestant faiths in a Christian tradition. In many ways, William's protracted fit-of-absentmindedness regarding the emergence of a predominantly Calvinist and Regent capitalist Republic was pivotal to its creation in the first place. In terms of an historical success model, it inculcated the founders of the Dutch Republic with a geopolitical pragmatism in service of the consolidation of local liberties and privileges.

*c) Spanish Fury, temporary foreign weakness, roots of the "Dutch miracle"*

The first "Dutch Miracle" did not happen in the late twentieth century, but in the late sixteenth century, when Holland made the transition from a bulk trade economy based upon grain transport from the Baltic into a rich trade economy based upon rich trade goods (Israel, 1995: 307). The miracle did not happen on a pre-planned basis, by virtue of home-grown will-power or strategy. It was triggered by several happy accidents that facilitated the low-cost transfer of international spill-overs.

One happy accident was the so-called "Spanish Fury" against Antwerp in 1576. The Spanish Crown's near bankruptcy in 1575 caused large delays in the payment of soldiers; prompting the latter to sack Antwerp to get their due. The brutality and arbitrariness of this event caused shockwaves in popular opinion, alienating the locals, including Catholics, against the Spanish Habsburg empire. It proved a tipping point for the Dutch Revolt, not in the least because it promptly led to overwhelming support for the Pacification of Ghent and Union of Utrecht settlement. Crucially, the Spanish Fury accelerated the migration of Antwerp bankers and merchants – and their clientele – to Amsterdam. Furthermore, the Spanish Fury unintentionally gave the fledgling export industries in Holland a serious boost. The Spanish Fury encouraged the decline of the Antwerp Cloth Market as English traders sought out new commercial links, most notably in Leiden. By 1582, all English trade to Antwerp had ceased. At the end of the sixteenth century, Amsterdam had replaced Antwerp as the most influential city-state in Northern Europe.

The Dutch Republic profited from a more general happy accident also. The geopolitical opportunity structure was extraordinarily favourable, due to the temporary weakness of the larger geopolitical entities surrounding Holland. The main imperial power of the time, Spain, experienced near-bankruptcy several times in the last decades of the seventeenth century – first at the hand of English pirates' repeated sacking of its ship-bound fortunes, later due to the Armada's failed invasion of England (1588). Meanwhile, the Dutch troubles only came third in Philip's geopolitical priorities. That is, after the conquest of Portugal, and the invasion of England in retaliation to the latter's declaration of independence from the Holy Roman Empire. All this gave the Dutch rebels a much needed respite to get their internal affairs in order (1580s). If not, Alexander of Parma's formidable army would have made short work of the Dutch defenses. Now, demoralised and occasionally unpaid Spanish soldiers were consistently fighting in numerical inferiority against emboldened rebels. Furthermore, the Spanish subjugation of Portugal unintentionally opened the way for a Dutch take-over of Portugal's imperial trade routes – one of the key causes of the Dutch miracle. Finally, the Dutch economy to a great extent was dependent on export markets in England and France. Yet, up to the 1660s, the Dutch

were given much leeway by their rivals; the latter were too busy arranging internal succession and territorial consolidation processes.<sup>98</sup>

***d) Making the Dutch miracle happen: complementarity Regents and Oranges***

While the Spanish fury and the temporary weakness of larger geopolitical entities provided the necessary happy accidents to make a Dutch miracle possible, this was not a sufficient condition for the miracle to actually occur. That condition was a greater complementarity and accepted division of labour between Regents and Orangists. At its simplest, the interplay between the Regent Van Oldenbarnevelt and the up-and-coming champion of Orangism, Maurice of Nassau, provided this complementarity through the crucial period 1587-1610 – during which the “Dutch miracle”, as well as the Republic’s foundations were consolidated.

Johan van Oldenbarnevelt played an important supportive role in the Dutch Revolt. Although he inherited William’s double predilection for “freedom of conscience” and “concord”, Van Oldenbarnevelt tended more towards the Regent views after his appointment as pensionary of Rotterdam and member of the States of Holland in 1576 – Van Oldenbarnevelt fully supported the Union of Utrecht (1579), contrary to William who clinged to the Pacification of Ghent. This does not mean he relinquished William’s Orangist views. In many ways, Van Oldenbarnevelt functioned as a bridge between Regenst and Orangists, for instance promoting his father’s acceptance of the countship of Holland and Zeeland in 1584. Furthermore, Van Oldenbarnevelt helped convince William to relinquish his allegiance to the Spanish Crown. Crucially, he was a fierce opponent of the centralisation policies of the Earl of Leicester, who had been appointed governor-general at the time<sup>99</sup> in return for English support. In the hope they would be more understanding of the Dutch predilection for local privileges and liberties, Van Oldenbarnevelt favoured local representatives of the Oranges. Thus, he was instrumental in making the Earl leave in 1587 to make way for among other Maurice of Nassau as military commander. Maurice, the eldest son from William's second marriage, to Anna of Saxony, proved a strong military leader, winning several victories over the Spanish. In 1589, Maurice became Prince of Orange and Stadholder of five provinces. Befitting his new titles, Maurice gradually became an outspoken representative of a more ideological variant of Orangism than the one invented by his father; favouring among other a strong national synod and less commercial relativism. This only would cause substantial friction with Van Oldenbarnevelt and the Regents from the 1610s onwards, however.<sup>100</sup> During the crucial three preceding decades, Van Oldenbarnevelt and Maurice functioned in a highly complementary way, the former acting as Advocate, i.e. administrative and political coordinator of the Republic, the latter rather disinterested in Statesmanship, but all the more in military prowess and Orangist stability.

#### **4.4. Decline of the Dutch success model**

***a) Causes***

As long as the Habsburg threat had been imminent, the coalition of Regents and Orangists held fast. After the Peace of Westphalia in 1648, however, the anti-imperial struggle against the Holy Roman Emperor which had provided the Dutch Republic with its purpose and interprovincial unity, lost much of its relevance. The loss of a common foreign enemy made decision-making in the States-General very labourious; the manifold

economic, political and religious differences between the provinces surfaced<sup>101</sup>. Decision-making in the States-General increasingly was referred to closed-door special committees, made up of a handful of insiders working on compromise deals. One of the biggest divisions which appeared between Regents and Orangists had to do with involvement in the Revolution of the Republic greatest commercial rival, England. Many Regents noted that the ascendancy of William III on the English throne concurred with the financial and military rise of the English state. So much so that by the time of the War of the Spanish Succession (1702-13), Britain had emerged as unquestionably the strongest of the powers ranged against the might of France and Bourbon Spain. The Dutch Republic, on the other hand, played an increasingly subsidiary role, especially at sea and outside Europe (Israel, 1997: xii).

Soon, the idea that one of the great contrasts between the seventeenth and eighteenth century Dutch Republic lay in the character of its leadership gained prominence. In the former century the leading ranks knew that they had to fight and work to maintain the Republic's newly acquired political prestige, not only by investing in the military, but also by competing strenuously in trade and industry. By contrast, in the eighteenth century, the reputation of the Dutch Republic was established, and the oligarchy proved incapable of any sacrifice for the national cause; they increasingly invested their money in one source of wealth: the stock-market. Similarly, it proved impossible to lower the high wages in the Holland finishing industry of linen and wool. From 1700, the inadequacy of Dutch mercantilist sea policies became visible in terms of wealth: the policies of economic protectionism inaugurated by Britain and France in the second half of the seventeenth century took effect, also because these latter nations had a more or less independent industrial production which the Dutch Republic never could have – as its specialised in a finishing industry which was becoming superseded in scale by foreign manufacturers (Vlekke, 1945: 258-259).

As a result of the loss of a common foreign enemy – the main basis of coordination, an important cooperation problem appeared in the Republic, to do with the fiscal quota system. When external pressure on the Republic was high, the quota functioned relatively well, but this changed in years of peace. In sum, Holland was the only province able – and more or less willing – to solve urgent financial problems. In particular after 1648, other provinces free rode as much as possible. Only Holland identified itself with the common Dutch interest, the other provinces were aloof of such an identification. By 1667 all provinces were far behind in their payments to the central treasury. While Holland had already paid 88% of its share, Gelderland had paid only 12%, Overijssel 52% and Utrecht 70% (Fritschy, 1996, pp. 9-10). This free riding slowly accumulated and became almost the norm. In 1790, when state bankruptcy was approaching rapidly and the state lacked adequate means to organise its defences, an inventory was drawn up of the results of all the 'non-payments' that had occurred since 1783. The total amount of arrears was almost 16 million guilders, but Holland had contributed almost its complete share while the other provinces owed huge sums (Meulen, 1905: 262).

While the Holland Regents in the States General put a lot of pressure on other provinces to reform their tax systems in order to yield more money, or to contribute more generally to the common purpose, the problem was that neither the States General nor the province of Holland had adequate instruments to force other provinces to pay their share in full and in time, since ultimately the Republic was a coalition of independent states<sup>102</sup> (Van

Zanden and Prak, 2004). Only at the very end of the eighteenth century was the fiscal quota system in place since 1616 substantially revised. By then, however, Holland's share in the quota system had risen to a crippling sixty per cent or more. Holland's urban trading system, however, had started crumbling as early as the 1720s.<sup>103</sup> Meanwhile, the Dutch state had proved incapable of adopting to the shifting economic and population growth momentum in the Republic from the maritime west to the agrarian east, and from commerce to agriculture<sup>104</sup>. An overhaul of the Dutch Republic's taxation system, necessary after Holland became overburdened with debt during the wars against Louis XIV, foundered on the diverging economic interests of the different provinces (Aalbers, 1986). The only solution which the two groups of leaders, the Regents and Orangists, could come up with was to form an even more closed oligarchy. After 1747, the year in which had France invaded the Republic once again, the authority in this oligarchy shifted more and more to prince William IV<sup>105</sup>. By creating an informal network of patronage, the prince of Orange succeeded in centralising authority in the Republic to some extent (Prak, 2000: 352). This centralisation, however, came at the cost of a democratic deficit. The glaring contrast between, on the one hand, the waxing riches of the oligarchs, and, on the other hand, the impoverished middle ranks and the financially powerless state would finally help to bring this deficit to surface (De Vries, 1968: 178).

### ***b) The emergence of Patriotism***

By the 1780s, a growing contradiction emerged between on the one hand, the deteriorating economic wealth of the Republic, and, on the other hand, the fact that the Dutch capital market remained the leading provider of government loans to other nation-states up to the end of the eighteenth century<sup>106</sup> (cf. Riley, 1980). In the 1780s, the ossified oligarchy was challenged by a widespread revolt, the so-called Patriot Movement, which for a large part based its grievances of democratic deficit on this contradiction ('t Hart, 2001: 104-105)<sup>107</sup>. The Patriots, mostly middle ranked people whose economic situation was declining, argued that the "national disintegration" that the Dutch Republic was experiencing resulted from the unpatriotic rentiering and stockjobbing of the wealthy in the Republic<sup>108</sup>. For these wealthy rentiers in the mean time had moved most of their investments abroad<sup>109</sup>. Still, the Patriots did not only target the "old corruption" of wealthy rentiers. While the Patriots embraced much of Orangist corporatist discourse, they did not distinguish between Regent rentiers and the Prince of Orange. That is because Orange's pro-English foreign policy was seen as the reason for the disasters of the Fourth English War. His patronage was regarded as the source of political corruption at home and and his command of the Republic's mercenary army seemed to threaten traditional liberties<sup>110</sup> (Brake, 1989: 90). The Patriots focused their "democratic deficit" grievances on the relationship between both groups: the "moneyed interests" – an irresponsible and unpatriotic class of international rentiers and jockstobbers, and the monarchy – a tyrannical bunch intent on self-agrandizement through military conquest. In light of the historical public debt problems in the Republic, the Patriots argued that only a more patriotic financial system could offer an alternative for growing state debts.<sup>111 112</sup>

With the aid of French revolutionary armies the Patriots in 1795 brought about the 'Batavian Revolution'<sup>113</sup>. The Patriots wanted the new Batavian Republic to be governed, like the new French Republic, by a constitutional, representative government. An important structural change proposed by the Patriots to nationalise the system of public debt provision and taxation by making it accountable to a more representative national franchise (cf. Pfeil, 1998). This financial nationalisation, however, was left largely

unrealised, both because of the continuing provincial autonomy in matters of fiscality and public finance, and because of the spectacular demise of the Amsterdam financial system. While the Bank of Amsterdam had continued to flourish until the mid-eighteenth century, the Dutch in the Fourth Anglo-Dutch War in 1784 and the concurrent demise of the East India Company, its success declined sharply. Merchants grew increasingly accustomed to paying their bills outside the Bank in current money (Van Dillen, 1934: 115-116)<sup>114</sup>.

A structural change which was unintended, but inadvertently realised during the Patriot Revolt, was a shift of the epicentre of popular opinion from Holland to the outer provinces. Indeed, while the anti-Orangist element of the Patriot movement was certainly strongest in Holland – the ruling regent aristocracy in this province traditionally was opposed to the House of Orange – the appeals for grassroots democratisation were strongest in the outer provinces, most notably the eastern provinces of Overijssel and Gelderland, but also in Utrecht.<sup>115</sup> Also, Roman Catholics, Baptists and all others who did not belong to the Dutch Reformed Church and who were on the whole rather well off, supported the Patriot movement because its democratic aims seemed to promise an end to their exclusion from first-class national membership (Kossmann, 1971: 164-165)<sup>116 117</sup>.

Finally, the Patriots launched a new civilisation offensive which would have significant structural reverberations in the later Kingdom of the Netherlands, both in economic and religious terms. In religious terms, the Patriot movement promoted a peculiar mixture of Enlightenment and Christian values<sup>118</sup>. On the one hand, Patriots focused on the “unsolved antithesis between the ecclesiastical and the secular government” (Fockema Andreae, 1961: 148) which had lingered in the Dutch Republic<sup>119</sup>. So, Patriots such as Jan Nieuwenhuijzen founded organisations such as the Society for Public Welfare (1784). With its “enlightened” body of thought, the Society formed a counternetwork against the Reformed Church and the governing oligarchy. And when on August the 5th, 1796, the National Assembly of the Batavian Republic decreed that “there cannot and will not be tolerated any privileged or dominant Church in the Netherlands”, the Dutch Reformed Church effectively lost its formal authority in matters of marriage, poor relief and education. On the other hand, the Patriots often were more religious than the oligarchy they were fighting. For instance, the founder of the Society for Public Welfare, Nieuwenhuijzen, was a Baptist. What the Patriots reproached the oligarchs, however, was that they used the authority of the Reformed Church as a means to govern rather than to induce prayer. In response to this abuse of Protestantism as a source of political mobilisation, the patriots brought forth a more enlightened ideology in which not the church nor theology but the state and a juridical apparatus were the main reference points (Stuurman, 1983: 105-108). Still, the Patriots realised that to foster the notion that all Dutch citizens should seek to serve the public good, they needed to use Christian rhetoric, as this was the most effective means of civic mobilisation in the Republic<sup>120</sup> (Schama, 1977: 74-75).

In economic terms, the Patriots induced a change in mentality with regards to a monetary economy and profit-making amongst the lower ranks. Up to the end of the nineteenth century, large parts of the country population lived in locally sufficient subsistence economies, based on non-monetary exchange. The Patriots were keen to change this by building a nation-wide financial system. To achieve this, they reworked the foreign and domestic stigmatisation of Dutch entrepreneurs and financiers as a money-grubbing and stingy bunch<sup>121</sup>; arguing that, on condition that it served the “real wealth” of the country, the urge to make profit actually diminished prodigal practices. Not afraid to

rewrite history, the Patriots even maintained it was a focus on real wealth rather than stockjobbing that had allowed the Republic to enjoy its Golden Age and international prestige.<sup>122</sup>

The Napoleonic invasion of the country in 1795 many ways would help to give substance to Patriotic claims of the Holland middle classes. Although, paradoxically, only if reinvented within a reinvigorated Orangist tradition. What would precipitate more national unity was the Emperor's initiatives to amalgamate the public debt in 1798, create a national system of taxation in 1806, centralise the Mint in 1806/7 (t' Hart et al., 1997: 4). Unfortunately, meanwhile investor confidence was at an all time low, and the public debt exploded (Jonker, 1996). Much work still was to be done to create a stable and geopolitically viable Dutch entity.

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<sup>91</sup> The denominator of this group in the original historical literature was "Staatsgezinden".

<sup>92</sup> Even the famous Grand Pensionary John de Witt, who did not have a direct interest in trade, was of the same opinion (Rowen, 1978: 188).

<sup>93</sup> In fact, Dutch city merchants provide an exemplary case for the question of how to protect civilians from violent external attack without being dominated by their own military helpers (Elias, 1996: 11-12). Dutch naval captains were in large part from the middle and petit-bourgeois strata. On land, on the other hand, the Republic mainly fought with the help of mercenaries, commanded by the members of the one important noble dynasty, the Protestant House of Orange.

<sup>94</sup> This principle would be reinvented as a tradition of "proportionality" in the twentieth century, during the period of pillarisation.

<sup>95</sup> This geographical position enabled the Hollanders and Zeelanders to consolidate the entrepôt function between the Mediterranean and the Baltic. Furthermore, it provided them with a gateway to Germany via the Rhine, and an excellent place to land herring for trans-shipment to European Catholics foregoing meat on Fridays.

<sup>96</sup> Leiden is a town that was situated at the heart of the Rijnland raised bogs.

<sup>97</sup> These cities were located at the northwest and southeast corners of the bogs.

<sup>98</sup> Afterwards, the picture changed completely. France and England introduced more and more protective measures in their domestic markets, while engaging all their military power in imperial conquests. When in 1672 England and France attacked and occupied much of the Republic, the decline of the Dutch Republic as an international power had become unstoppable. While the wars against France continued until 1713, prices rose sharply in the Republic and the taxation burden needed to finance the public debt and the military became unbearable. Dutch Regent capitalists increasingly became rentiers, eager to invest their money in foreign markets – first in the English debt and from the late eighteenth century in US railroads.

<sup>99</sup> Dudley was placed in command of the Dutch campaign of 1585, culminating in the Battle of Zutphen. He was afforded the title Governor-General of the Dutch Republic under the Treaty of Nonsuch.

However, the direct support from the English would prove to be of little help to the revolt. Leicester was an ineffective administrator, often in conflict with the leading Dutch statesman Johan van Oldenbarnevelt. His military enterprises came to no success either, culminating in the loss of Battle of Zutphen. He was to return to England in disgrace.

<sup>100</sup> Friction started when Van Oldenbarnevelt, against Maurice's advice, decided to sign the Twelve Years' Truce with Spain, which lasted from 1609 - 1621.

<sup>101</sup> Thus, while the demise of the economic soundness of the Dutch Republic is often situated around 1720, decline had already set in much earlier, concurrent with the decline of the Holy Roman Empire – and symbolized by the 1648 peace of Westphalia.

<sup>102</sup> Apart from Brabant and Limburg, which were subjected directly to the central authority of the States-General and the Stadtholderate - when this last party was in function - the Dutch provinces enjoyed a great degree of autonomy.

<sup>103</sup> Israel, 1998: 993.

<sup>104</sup> virtually all inland sandy-soil provinces and in particular Gelderland appear to have profited from the outdated quota system...From the mid-eighteenth century, the countryside began to profit from the recovery in agricultural prices. In addition, most of the population increase of the later eighteenth century was confined to the countryside (t' Hart, 2001: 102-103).

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<sup>105</sup> In the emergency, all provinces decided to accept William IV as their new stadholder, granting him even more special powers than his predecessor in 1674. As a result, the Orange court was able to control political appointments in the towns of all provinces save Holland.

<sup>106</sup> During the eighteenth century, the Dutch importance in international public finance increased, to the point at which the growing Amsterdam capital market ceased to be related to the functioning of the commercial staple market. The expansion of direct trading outside the Netherlands entrepot and the introduction of finishing industries at the ports of return - at Bordeaux, Liverpool and Hamburg - contributed to the redundancy of the Dutch middleman. The role of the capitalist, hitherto inextricably linked with trade through the commission business, gradually reverted to more purely banking and broking functions. Attracted by higher rates of interest than those prevailing at home, concentrations of capital detached themselves from the entrepot and were invested in foreign loans, or lending short with a quick turnaround. This structural relocation of resources had evident political reverberations. While the commercial and financial community did not divide into obviously polarised classes, it became more difficult for merchants and entrepreneurs to make fortunes that could compare with the colossal wealth of the great bankers and financiers... This division, however blurred, was not without its political implications. There was some feeling within the mercantile community that the crisis to which the world of acceptance banking seemed periodically prone in turn generated conditions inauspicious for the prospects of trade ... the close association of Dutch financial operations with the expansion of British power and strength was a sore point with the traditionally Anglophobe commercial lobby in Holland... Such objections received dramatic emphasis from the events leading to the Fourth Anglo-Dutch War (1780-84). The Stadholder's preference for "army augmentation" over "fleet restoration" was taken as corroboration of the accusation that those Orangists with strong English connections... were prepared to subvert the national interest to protect their dividend (Schama, 1977: 34-36).

<sup>107</sup> Small towns inland sided with rural militias in demanding proper political and economic reforms. The Dutch oligarchs, however, managed to restore their power up to 1795. The wealthy small towns and rural communities had to wait for the centralised state of the nineteenth century to gain their rightful place in the national political system.

<sup>108</sup> Before the Patriot movement, a radical republican movement had already emerged in Amsterdam in the first half of the eighteenth century; the so-called "Doelistenbeweging". The Doelisten in 1747 sought to curb the power of the oligarchy and to democratise the institutions of local government so as to address creeping questions of economic decline. They hereby focused on two vehicles of popular opinion, one established, one new: on the one hand, the guild system, and, on the other hand, the institution of centers for the application of science to the problems of industry. But to no avail: the problems of the Dutch Republic accumulated and tensions mounted well into the second half of the eighteenth century (Jacob, 1992: 231; Jacob and Mijnhardt, 1992: 3-4).

<sup>109</sup> followed by the Patriots was to picture their own age as decadent compared to the Golden period of international prestige of the Dutch Republic. As the culprit of this decadence, they mostly pointed to the moral decay of the old elites who could not bear the burden of wealth and with an unlimited prodigality prepared their undoing (Dankers et al, 2001: 24-27).

<sup>110</sup> The Prince of Orange, for his part, was blamed for the loss of the Fourth English Naval War (1780-1784) and said to be more interested in the army to further his international prestige than in the navy to protect the trade and the real interests of the people.

<sup>111</sup> Arguing for more local self-regulation, they also attacked the situation in which landtaxes and excises increasingly were spent to furnish the incomes for rich stockholders - the moneyed interests linked with the Holland Regent class, which the taxman dared not to touch for fear that they would leave the country taking their riches with them.

<sup>112</sup> Patriots and Orangists agreed that the main problem of the Dutch Republic was the highly localised character of politics and the lack of a national framework. While the Patriots preferred to turn all the State parliaments into one dependent instrument of the popular will through a system of government by representation, Orangists, on the other hand, proposed the strengthening of the Regent executive, personified by the stadholder (Jacob and Mijnhardt, 1992: 9-13).

<sup>113</sup> The name "Batavian" refers to Classical Antiquity, when the German tribe of the Batavians had succeeded in asserting their freedom against the German emperor, in what later on was to become the Netherlands. More particularly, the batavian myth postulates the independence of Holland from the time of the Batavian tribe of the Roman period and defines the medieval count of Holland as a predecessor the stadholder and as a creation of the representatives of the nobility. In the Patriot period, the term "Batavus" also came to include all noble, fatherland-loving patriots who were prepared to oppose the Dutch ancien regime. The name of the Batavian Revolution of 1795 - when many patriots who had gone to exile in France returned to complete the reform of the Dutch state - derived from this usage (Jacob and Mijnhardt, 1992: 339).

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<sup>114</sup> With the introduction of Napoleon's Continental System and the blockage of free passage by way of the North Sea, Amsterdam's economic power was dealt the final blow. Gradually, the entire international shipping traffic through Amsterdam was immobilized. Within a time span of a few years, Amsterdam trade completely collapsed. The East India Company (VOC) went bankrupt and the trade to Dutch-India fell into the hands of the English. The trade to the rest of Europe, Africa, India and the United States suffered greatly from the Napoleonic wars and the Continental system. All these factors of isolation and stagnation eventually finished off the Amsterdam staple market at the turn of the nineteenth century. The end of the staple market at one stroke meant the bankruptcy of the Amsterdam Exchange Bank and the end of the position of Amsterdam as an international financial centre. The city now was degraded to a secondary role in marketing foreign loans. And although Dutch capital investment in bonds remained impressive, it were the Rotschilds and London-based companies that set the market conditions in Amsterdam, thus leaving behind Dutch commercial establishments like Hope & Co. and W.&J. Willink as remnants of a glorious past (Jonker, 1999: 51-52).

<sup>115</sup> Generally speaking, in the outer provinces the House of Orange was widely supported by the local regents.

<sup>116</sup> By championing the idea that the pursuit of republican ideas through literature, arts and science was an acceptable alternative to direct political participation, the Dutch patriots fostered the notion that all Dutch citizens should seek to serve the public good. Despite the ultimate defeat of the republican Patriot movement, this paved the way for a democratisation of the Regent politics. Indeed, the discursive struggle between proponents of the Patriot movement and their establishment counterparts of the Orangist movement, made it impossible to return to the old order of things after 1787.

<sup>117</sup> The expansion of the anti-Stadholderian constituency by the Patriots was geographical as well as social. In contrast to earlier attacks on Orange – and even the “Doelisten” of 1748 – the Patriot campaign was not monopolised by the maritime provinces. In fact, the maritime provinces at this time were more than usually divided (Schama, 1977: 75).

<sup>118</sup> In doing this, they set out to recruit sections of Dutch society for whom active participation in their own government was no more than a memory.

<sup>119</sup> This antithesis was less conspicuous than the more visible antagonism between protestants and catholics (“kettlers and papen”) that came to be associated with the Dutch Revolt.

<sup>120</sup> The Christian rhetoric and common-place pamphlet histories which the Patriots distributed were well suited to exploit the contrast between the popular version of the founding of national liberties and their contemporary atrophy (Schama, 1977: 74-75).

<sup>121</sup> already in 1776, Le Francq van Berkhey, one of the inspirers of the Society of Public Welfare, emphasized the virtues of “economy” (thrift) and self-sufficiency as the basis of enlightened reason and intelligent policy in these “dark times”.

<sup>122</sup> The preacher Van Hamelsveld in his 1791 treaty on the ‘Moral State of the Dutch Nation’ argued similarly that “Dutch economy, famous for many centuries, is nowadays falling out of the habit” in favour of “excess and prodigality”.

## **5. WHIG AND TORY TRADITIONS, AND AN ENGLISH SUCCESS MODEL**

### **5.1. Introduction**

In this chapter, I briefly set out the two main sets of rivalling traditions of democratisation that emerged and consolidated in sixteenth, seventeenth and eighteenth century England: the Whig and Tory traditions of democratisation (5.2). For an elaboration of these two types of traditions, I refer to Appendix A, sections 3 and 4. In a subsequent section (5.3), I discuss how each one of the five Whig and Tory traditions of democratisation emerged as the result of a combination of strategic problem-solving and happy accidents with long-lasting effects. Successive, partial settlements – spanning multiple generations of leaders – ultimately, and by happy accident as much as original intentions, would consolidate into a simple English success model. Future generations would endeavour to reproduce this success model time and again – up to this very moment, by virtue of its identification as the cradle of Anglican exceptionalism. Finally (5.4), I discuss what the reasons for the decline of the English success model were during the eighteenth and early nineteenth centuries. This story of decline serves as an introduction to chapter 7.

### **5.2 Whig and Tory traditions of democratisation**

The qualifications presented in the preceding chapter about Dutch traditions of democratisation also apply to English traditions of democratisation. Despite nominal reference to the rivalling groups of “Whigs” and “Tories”, the presented traditions are only partly grounded in these groups’ actual behaviour. The traditions to some extent are also the product of the imaginative minds of the original groups’ successors, needing an historical narrative adapted to their own contemporary struggles. Most confusing is that both groups can behave very differently before and after the emergence of a democratic settlement. So, Tories’ rhetoric was most rebellious when the Whigs challenged their established power position during and immediately after the English Revolution. By 1720, however, Whigs and Tories had come to a settlement which considerably blurred the agendas of the two groups. Nevertheless, since the early 17th century, the contrary predispositions of Whig and Tory traditions have surfaced time and again in face of geopolitical changes. What are these contrary predispositions? While the Whig tradition promotes a personality principle of nationalism – Britain centered in London, the Tory tradition involves the promotion of a territorial or provincial English nationalism. The Whig tradition is typically championed by challenger elites in times of « national globalisation » and associated with established elites in times of « national relocalisation ». The opposite is true for the Tory tradition, which generally is associated with established elites in times of globalisation, and championed by outsiders in times of relocalisation.

What settlements between Whig and Tory groups allowed England to enjoy its economic revolutions and maritime supremacy from the middle of the eighteenth century onwards? One way the English problem of coordination was resolved, was by creating a more modern British identity: an identity of industry, empire and financial profit (Evans,

1994: 160). This British identity would formalise and extend the results of the first civilisation crusade in the thirteenth and fourteenth centuries. Such an identity would not have been possible without the creation of somewhat artificial enmities. Thus, despite the presence of only a minute minority of Catholics, intolerance against anything Catholic – Spanish, French, or Popish – was elevated to a priority.<sup>123</sup> <sup>124</sup> Second, and more remarkably, the creation of a convincing Britishness also involved interpreting Englishness as an identity which had lost much relevance in the current geopolitical reality. Indeed, to engage in further imperial expansion, the rivalries with the Spanish and French were used to forge a British protestant national identity, able to override English, Scottish, or Welsh allegiances.<sup>125</sup> The English Empire, which had consolidated after Cromwell’s reconquest of Ireland and the twin Acts of Union, would fast become a British one.<sup>126</sup> Or maybe it would not. In spite of all rhetoric of Britishness, English national identity had been and would remain central to British identity. After all, at the root of Britishness were those features of “Englishness” which were considered acceptable because they did not overtly go against the grain of notions of “Welshness”, “Scottishness” or “Irishness”. Also, it makes more sense to talk about “Anglican nonconformism” than British Protestantism, as Anglicanism was at the centre of Englishness, and nonconformism only came into the foreground geopolitically, that is to differentiate the country from its continental enemies.

Paralleling the British-English identity tug of war were two seemingly contradictory movements of sound capitalism, or sound money. The dynamic that resonates most in contemporary imagination was the embrace by dissenters and merchants in the City of London of a principle of *City monetarism*; supporting the relative autonomy of the Bank of England in issues of debt, liquidity and interest rates, and a City where merchants could make money militantly and increase their social status away from arbitrary fiscal and political encroachment. Yet, in the 17<sup>th</sup> and 18<sup>th</sup> centuries, this embrace was only a secondary phenomenon, the result of a “fit-of-absentmindedness” by the religious and agricultural elites who favoured a “real economy” focus and were eager to represent England-centred sentiment.

Contrary to contemporary mythology about Britain’s long tradition of liberal capitalism, the “real economy” cause prevailed in England up to the late nineteenth century – when high finance motives gained prominence in State policy, among others due to the final defeat of the agricultural cause. As early as the late Middle Ages, i.e. much earlier than in Continental Europe, an emphasis on sound money in service of the real economy had crystallised in England (Braudel 1984: 356). English bullionist policy by far was the most severe in Western Europe: legally the circulation of foreign coins was not allowed, as was the export of specie – especially of English coin (Munro, 1992: 298).<sup>127</sup> The reason for this severity was the greater domestic contestability in monetary affairs. England was unique in having a Parliament – dominated by landlords – that could effectively express public hostility to debasements – interpreted as a form of disguised taxation.<sup>128</sup> Thus, English agricultural and manufacturing concerns remained more central to State policy than international commerce considerations up to the late nineteenth century. It is only when the former concerns waned that guaranteeing the international centrality of the City of London became part of British monetary orthodoxy. And even then, this happened largely unintentionally, as the result of an international bandwagon effect beyond England’s territorial control. In a bid to renew the real money or “real bill” character of English banking, the State first adopted the gold standard in 1816, and later complemented it with Peel’s 1844 Bank Act. After Napoleon’s defeat emerging nation-states were

increasingly looking at the English clearing system as a model of sound finance. By virtue of this happy accident, some of the core features of the English clearing system, such as the gold standard were copied abroad, slowly giving rise to an international gold standard. The emergence of an international gold standard has been interpreted by liberals as the intentional product of English policy and the direct result of an English liberal tradition, steeped in universalism. Nothing could be further of the truth. For instance, by default of an intentionally internationalist “liberal tradition”, English merchants formed standalone merchant banks in the colonies, contrary to their continental European counterparts.

In sum, the English monetary principle of sound finance primarily co-developed with a territorial tradition of *Anglican voluntarism*, and only secondarily – through the proverbial “fit-of-absentmindedness” – with a cosmopolitan tradition of City monetarism. Based on the myth of a uniquely ancient and English freedom (Colls, 2002: 8), voluntarism was not the product of a “quasi-liberal” attitude to international trade and finance. Rather it was used by monarchs and parliament as a legitimation for England’s “splendid isolation” of English traditions, i.e. the immovable historical reality of an “Anglican nonconformism”.

The tradition of voluntarism has been invented from Saxon settlers’ origins by the pre-Revolution predecessors of the Tories, confusingly called the “country Whigs”. After the Revolution, country Whigs and court Tories shifted positions. From then onwards, it were the Tories who championed the tradition of voluntarism, for two purposes. To ground early trends of modernisation in a rationale of a real national economy. And to bolster support for a type of national unity maintained by intermediate, civil symbols of authority, rather than the State. In time, post-Revolution Whigs also drew on this tradition, although for different purposes: as a way to pit the rationality of the British Commonwealth – its monetary principles, but also its massive use of military force – against the irrationality of French and Popish imperialism. Whoever its champion, the spread and instinctive support for the tradition of voluntarism among middling and upper ranks in England helped to associate the nation with exceptional democratic credentials of social mobility and civic freedoms – religious and otherwise.

The above discussion introduced some English solutions to coordination problems. But how did rivalling English groups deal with the problem of cooperation? Cooperation problems were resolved in three ways. First, the government developed a fiscal policy that, to an undetermined extent, redistributed wealth; it did this to make sure it was not seen as the prisoner of any particular economic interest or class. Not only did the government keep taxes for the gentry and yeomanry relatively high. It also guaranteed unprecedented opportunities for assured income to investors in public funds and for instant fortunes to other men able to profit from the government’s expanding activities (Murrin, 1980) This was not just another application of the principle of City monetarism. Over the course of the centuries, the principle of non-preferential administration would become reinvented as a tradition of *neutrality* – by a government, civil service and economic actors eager to reconcile their differences within a unified public interest.<sup>129</sup> In Dyson’s words (1980: 230): the English State tradition entails a belief in the geopolitical effectiveness of “neutral transformatory structures processing ‘inputs’...into”outputs”. The age-old habit of delegating difficult regulatory decisions to the civil service and self-regulating economic bodies is merely another expression of the tradition of neutrality: to avoid perceptions of political, or moral preference and guarantee the continuation of a “neutral” level-playing field (fair-play), one relies on decision vehicles with a mixed public-private character.

Given the elitist nature of the latter vehicles, the tradition of neutrality is as much a solution to coordination as cooperation problems.

Second, the problem of religious and class strife was resolved by channeling aggression to the greater enemy France, and by developing a new consensual tradition of “secular Anglicanism” (cfr. Marwick, 1996). This tradition holds that all domestic religious – and in later centuries class – strife amounted to anti-national factionalism. The only legitimate religious strife was with Catholics, the French in particular (Colley, 1992a: 56). The paradox of secular Anglicanism is that domestically it was not really protestant in character. Yet, successive evangelical movements would do much to strengthen this tradition throughout the centuries. Evangelicalism softened the raw edges of potential group conflict by its restraining influence on the strategically important classes in England (Halévy, 1912; Haseler, 1976: 23). By being mobilised as a vehicle of secular Anglicanism, religious movements such as Methodism of course signed their own death warrant.

Finally, to keep aspirations of social mobility simultaneously alive and in check, a tradition of *Anglican democracy* came into being. Anglican democracy very much was the other side of the Anglican voluntarism coin: it meant that England was a “Commonwealth that embraces all classes, sections, interests in a common life” (Bentinck, 1917: 137). In this Commonwealth, the Establishment, through Parliament or other political avenues, would protect the rightful aspirations of especially the middling, but also the lower sorts from encroachment by any outsider – domestic or geopolitical – that did not respect the natural balance and integration of the different classes and ranks.<sup>130</sup> For instance, landlords’ resistance against debasements was successfully depicted in Parliament and popular opinion as a way to protect the standards of life of the employed ranks – as well as landlords’ own income.

### **5.3 Happy accidents, partial settlements and an English success model**

In this section, I shall first elaborate on the role of fit-of-absentmindedness in the making of each tradition (5.3.1), and then proceed to describe the emergence and consolidation of an English success model (5.3.2).

#### **5.3.1 Traditions: the role of fit-of-absentmindedness and unintentional opportunities**

##### ***a) Tradition of voluntarism***

The Teutonic sea-borne invasions of England in the 400s and 500s were distinctive in that they brought about some of the first signs of Western individualisation. Saxons in effect were breaking away from old tribal ties and royal allegiances, in favour of more voluntary personal followings and migrations to a new motherland. Obviously, new communal ties were formed in England; yet given historical antecedents they would remain somewhat different from their continental counterparts. This would not change noticeably throughout the ensuing centuries, when Christian missionaries from Ireland colonised England, and set out to establish closer ties with the European continent. If

anything, the influence of English monastic settlements on continental reality was of a reforming, voluntary kind (cf. Collins, 1999).

In sum, the English tradition of voluntarism has its origins in the migration of people breaking old communal ties in favour of a process of individualisation, and subsequent re-societalisation on more voluntary principles. As we shall see later, while the tradition of voluntarism ultimately was spawned outside of the merchant City, the latter would provide a beginning and end point for this double movement – facilitating foreign-initiated individualisation and abiding by the episodic rule of Anglican re-societalisation.

**b) *Tradition of secular Anglicanism***

Another distinctive feature of the Saxon invaders was their religious culture. It did not rely as much as its Greek, Roman, Hindu or Celtic counterparts on deities intervening in human heroes' lives. Saxon religious culture formed in the long struggle against Christianity for control of the new states of the north.<sup>131</sup> Such a "Godless" culture, even after being forcefully Christianised was bound to remain more open to influences of individualisation and secular re-societalisation than much of continental culture (Borkenau, 1981: 256).

Another critical juncture in the making of the tradition of secular Anglicanism was the Puritan Cromwell's attempt to build a "Godly Commonwealth". While Henry VIII, icon of Anglican nonconformism, in fact had opposed the Reformation as a Catholic Orthodox, Cromwell unintentionally brought the reformation back with a vengeance. His Commonwealth period was marked by the resurgence of Reformation ideas of rationalism, anti-clericalism, and the beginnings of secularism (Jones, 1998: 77).

**c) *Tradition of City monetarism***

Edward I's duality of behaviour towards the City of London in the thirteenth century epitomises the central, yet contradictorily secondary role played by the tradition of City monetarism. Edward's rule marked the last occasion when overseas interests were deliberately accorded so reasonable a role in the affairs of London since the period 1986-2008. During the last twenty years of the thirteenth century, he kept the City under direct rule for a dozen years, in part so as to ensure that foreigners could pursue their business to his monetary advantage. Yet, even Edward I succumbed to pressures to demonstrate a primary allegiance to the Anglican nonconformism principle. Thus, he introduced the most severe English bullionist policy in Western Europe, prohibiting by law the circulation of foreign coins and the export of specie – especially of English coin (Munro, 1992: 298).<sup>132</sup>

**d) *Tradition of Anglican democracy***

As noted above, Anglican democracy refers to the principle that England is a "Commonwealth that embraces all classes, sections, interests in a common life" (Bentinck, 1917: 137). One avowed aspect of this principle is that the Establishment, through Parliament or other political avenues, would protect the rightful aspirations of especially the middling, but also the lower sorts from encroachment by any outsider – domestic or geopolitical – that did not respect the natural balance and integration of the different classes and ranks. For instance, landlords' resistance against debasements was successfully depicted in Parliament and popular opinion as a way to protect the standards of life of the employed ranks – as well as landlords' own income.

An entirely unavowed antecedent of the Anglican democracy principle, in particular its imperial counterpart "England and Empire", was provided by Cromwell's Commonwealth. Contrary to the "liberal tradition" associated with the emergence of Empire by fit-of-absentmindedness, it was Cromwell's aggressive nationalism and

protectionism that first gave rise to the idea of an “England and Empire” Commonwealth. Rather than a liberal tradition, it was the combination of policies represented by the Navigation Acts, a strong navy, and protectionism that resulted in Britain’s capturing gains from trade as well as achieving fruitful import substitution (Ormrod, 2003). Of course, Cromwell did this in the name of the protection of the rightful demands of the English people, as represented by Parliament. Thus, the legislation of the Long Parliament<sup>133</sup> during the Civil War ensured that no-one could raise taxes without parliamentary consent. Disraeli in 1872 would reinvent both sides of the Commonwealth coin, with his slogans “England and Empire” and “Anglican democracy”.<sup>134</sup>

*e) Tradition of neutrality*

The middling role played by City of London merchants in cycles of individualisation and re-societalisation inadvertently led to the birth of a tradition of neutrality. Contrary to for instance the Dutch Republic, where groups were spared the worst pressures of individualisation and re-societalisation, and a tradition of living-together-apart flourished, English groups were less able to buffer themselves from these pressures. This led to Englishmen’s inculcation with both a more possessive individualism and a more qualitative type of territorial nonconformism than in the Dutch Republic. Only a non-partial English vehicle, championing a tradition of fiscal and monetary neutrality, could mediate these contradictory pressures. Originating in the Norman Conquests, the Treasury decisively emerged<sup>135</sup> as this vehicle in the sixteenth and seventeenth centuries. It was a City representative, Lionel Cranfield, who provided a tipping point in this regard. Cranfield was a successful merchant venturer, who from poacher turned gamekeeper. After becoming Lord treasurer under James I in 1614, he in 1621 launched a campaign of economic reform in “every particular”. Trying to do away with the worst excesses of patronage and sectarianism, Cranfield was soon impeached and imprisoned. Yet, the departmental reform of the Treasury he initiated – against inefficiencies in collecting revenues, incompetence and waste of public funds<sup>136</sup> – would have a lasting effect (Tawney, 1958: 165). In effect, it turned the English fiscal system into the most centralised of Europe; a system in which provincial estates, special privileges and exemptions hardly figured. As this gave Parliament – symbol of Anglican nonconformism – great power, the Treasury soon turned it into the incontestable symbol of English traditions and liberties within the civil service. Coinciding with Cranfield’s economy campaign, the City of London claimed its unequivocal place as the bulwark of English traditions of democratisation; thus, in 1621, Parliamentary debates did not talk anymore about “this city”, or the “City of London”, but about “‘the City’ tout court, in the sense of London business” (Tawney, 1958 : 75, note 1).

**5.3.2 Transformation of partial settlements into a simple English success model**

The English success model that consolidated from the end of the 17<sup>th</sup> century onwards can be summarised as “Anglican nonconformism”: “reinforce English traditions and liberties by pioneering a qualitatively sounder national vantage point; a vantage point conducive to foreign imitation and transformation by virtue of the international model of the City of London”. This deceptively simple model emerged as the synthesis and geopolitical apogée of successive partial settlements spanning several centuries, some facilitated by foreign imported rulers, others championed by Whigs and Tories and their precursors. As with its Dutch counterpart, the simple model would not have consolidated if it were not for a succession of happy accidents.

***a) The unintended role of the City in the birth of Anglican nonconformism***

All five English traditions of democratisation were the product of a remarkable interaction between foreign invasion and Anglicisation, with the City of London emerging as an unlikely middleman between those two dynamics. Ever since the Roman invasion, the City of London had been the entry point for foreign merchants. The Teutonic invasions of the 4<sup>th</sup> and 5<sup>th</sup> centuries led to a temporary disruption in the City's role. Yet, by 600 AD the invading Saxons had been divorced long enough from the Continental motherland to have become "Anglicised", i.e. built a territorial relation with the southern parts of the Isles. Coinciding with this new national consciousness, Saxons built a new City settlement close to the original Londinium, by virtue of its closeness to the harbour. Anglicised Saxon kings were increasingly keen on protecting the London settlement, given its potential to contribute fiscally in its function as a fishing and trading center. Not surprisingly, successive rounds of foreign invaders – Danish and French – found it increasingly hard to control the City. Ultimately, the City would get the connotation of being centric to the defense of English traditions. Alfred the Great's taking of London to suppress a Danish uprising provided one tipping point in this regard. Another tipping point was reached in 1075 when the invading William of Normandy, finding it hard to conquer the City, granted its citizenry with a charter of special privileges. This in effect meant that the City of London was one of the institutions where English traditions continued to retain most autonomy after William's invasion. Ultimately, this would greatly contribute to the City's reputation as bulwark of English liberties and traditions, and Anglican exceptionalism – or nonconformism. Clearly, a large deal of fit-of-absentmindedness was at work here, given the reality that English territorial traditions originated outside of London, and that the City if anything provided a continuous entry point for foreign merchants.

***b) A Catholic Orthodox initiates "official" Anglican nonconformism***

When Henry VIII, in spite of his past as a Catholic orthodox opposed to the Reformation, decided to break with the Roman Catholic Pope (1533), he was motivated more by secular power politics than religious ideals. Nevertheless, by transforming the English Catholic Church into an autonomous Anglican Church, Henry gave the ideological principle of Anglican nonconformism a State-officiated, religious character. Henry's moment would be used by monarchs and parliament as a legitimation for the "splendid isolation" of English traditions. That is, the immovable historical reality of an Anglican nonconformism; a form of God-given superiority of the British Isles versus the Continent – as in the myth of the "rational" Englishman against the "irrational" Frenchman. The implicit assumption here was that foreigners may want to adapt to English traditions, but the opposite should never happen as it would mean devaluing the superiority of Anglo-Saxon freedom and democracy.

***c) The critical, unacknowledged juncture of the Civil War***

The myth of Anglican nonconformism would have been degraded into an economically backward, ideological residue, if it were not for a coincident fiscal revolution. More than the Glorious Revolution, the Civil War provided a critical conjuncture in this regard. The latter conflict originated as both a tax revolt and a revolt in the name of an aggressive territorial nonconformism – implying the crucial antecedent of Cromwell's reconquest of Catholic Ireland. Ireland's conquest provided the prototype of later British imperial rule – with its civilising mission, a sense of cultural superiority over native people, and the doctrine of terra nullius (Lieven, 2002).<sup>137</sup> In other words,

Cromwell's time provided a turning point in the use of fiscal and foreign policy as the shield of English republican traditions.

***d) Emergence of goldsmiths: Anglican model of sound finance personified***

By the end of the 17<sup>th</sup> century, the blueprint of an innovative English banking system was emerging, championed by goldsmiths. Under pressure of the principle of Anglican nonconformism – which often was invoked opportunistically more than anything else in Parliament – royal authorities refused to give their blessing to the Continental European banking system – merchant bankers in City-states speculating on international currency exchange movements. Instead, England developed its own, peculiarly domestic banking system. Not as the result of a grand State design, but by virtue of the unintended effects of two contradictory types of State interventions, one parliamentary, one royal. Parliamentary interventions to guarantee a sound money system and foster internal trade and commerce brought about two effects: they led to a legal prohibition of European banking practices, and they induced an increasing spirit of “liberty” amongst London merchants to develop an informal money market independently of State interference (cf. Bisschop, 1968). What parliamentary pressure effectively did was to pass the buck of “royal abuse” from themselves to foreign merchants in London. For long stretches of time, foreign merchants were in charge of currency exchange practices in London. Yet, periodically, the Crown used domestic accusations of foreign greed and papal usury to confiscate these foreigners' bullion reserves – especially so with the Italian Lombards that functioned as collectors of papal tithes in the sixteenth century. While this meant foreign merchants eventually were compelled to leave the country, it left the door way open for sufficiently “Anglicised” entrepreneurs to step in. The departure of incumbent foreigners was not so much of a problem, for two reasons. The influx of new foreigners in London continued nonetheless. And the City had come to develop vehicles of Anglicisation of foreign entrepreneurs: in particular the Goldsmith Company, but also the City Corporation (cf. Evans, 1933). Seeking ways to supply liquidity and credit without currency exchange, Anglicised goldsmiths eventually would devise new techniques of banking. From the beginning of the 17th century, a goldsmith was frequently found at the head of the London Mint. In sum, with every royal abuse the City of London Corporation's pre-existing Anglican liberties would be drawn on more; yet, not by foreigners who were periodically forced to flee, but by their replacing English or second-generation “Anglicised” entrepreneurs.

***e) Napoleon's defeat and the unintentional rise of an international gold standard***

As we saw above, principles of sound finance in England primarily co-developed with a “real economy” tradition – voluntarism and Anglican nonconformism, and only secondarily with a concept of City monetarism grounded in the personality principle. In other words, England developed a peculiarly domestic banking system. And English agricultural and manufacturing concerns remained more central to State policy than international commerce considerations up to the late nineteenth century. It is only when the former concerns waned that guaranteeing the international centrality of the City of London became part of British monetary orthodoxy. And even then, largely by fit-of-absentmindedness: as the result of an international bandwagon effect beyond England's territorial control.

How exactly did this fit-of-absentmindedness play out? In a bid to renew the real money or “real bill” character of English banking, Parliament had adopted the gold

standard in 1816, and had complemented it with Peel's 1844 Bank Act. After Napoleon's defeat at Waterloo, the movement of nations looking for states – to form nation-states – increasingly sought inspiration in the English, rather than the French republican model. Part of the latter model's appeal was its banking clearing system, which gradually received iconic status in international financial circles as a national model of sound finance. By virtue of this largely unintended international reappraisal of English banking after Napoleon's defeat, some of the core features of the English clearing system, such as the gold standard were copied abroad. The effects of this bandwagon movement were such that by the mid-19<sup>th</sup> century, an international gold standard was emerging. This standard has been interpreted by liberals as the intentional product of English policy and the direct result of an English liberal tradition, steeped in universal principles of individuality and modernity. Nothing could be further of the truth, as can be illustrated by a few examples. For instance, by default of an intentionally internationalist "liberal tradition", English merchants formed standalone merchant banks in the colonies, contrary to their continental European counterparts who were less hindered by domestic real economy priorities and restrictions. Furthermore, according to promoters of the liberal tradition, English bankers would have had the autonomy and intention to push an international gold standard. The opposite was true. Parliament during the nineteenth century had introduced a gold standard against the wishes of most bankers (cf. Knafo, 2006). That is because Parliament was not driven by vested financial interests, but by vested real economy interests, and the principle of Anglican nonconformism. Testifying to the institutionalisation of an association between fit-of-absentmindedness and Anglican nonconformism, long after the pound ceased to be the world currency and London the world's eminent financial centre, the motivation of retaining a real link between English money and the international British sphere would remain central to policy-makers. Although it increasingly was out of reach.

#### **5.4 Temporary decline of the English success model?**

Through the eighteenth century, Tory radicals – representing the Country interest<sup>138</sup> – and a fringe of Whig radicals accused the establishment of selling out on the Glorious Revolution principles. Instead of reinvigorating the principles of liberty and property in a public spirited way, the establishment allegedly gave way to patronage and other forms of "old corruption".<sup>139</sup> Taxation in particular was a moot point. Time and again it was presented as ruinous to the interests of ordinary Englishmen.<sup>140</sup> Despite its incessant criticism, the "patriot" opposition only occasionally was able to extract concessions from the government (Murrin, 1980: 382-383). By the end of the eighteenth century, however, patriots' arguments had become much more resonant. That this coincided with the ascendancy of the Tory Pitt at the helm of government does not really matter; by then, the Tory and Whig establishment had become indistinguishable in the eyes of the public. Pitt was eager to meet Tory demands of a more public spirited government and administration in the 1780s<sup>141</sup> to counter allegations of a lack of patriotism. The subsequent Napoleonic wars proved that the English financial system was capable of extracting a hitherto inconceivable sum in taxes. Pitt was hard-pressed to prove that his government was spending all of it to protect the nation, and not to reward 'corrupt' private interests at public expense. These efforts were nullified by the slow pace of administrative reform of the 1780s, and the fact that the sheer expense of the military effort had obliged the State to

suspend convertibility between 1797 and 1821 in order to enable the Bank of England to support it with massive war loans (Fetter, 1965).

All this contributed to the dramatic growth of the critique of “Old Corruption”. By the time of Pitt’s death in 1806 the image of public-minded stewardship he had been keen to project had foundered. An evolution sped up by the occurrence of the French Revolution, which had inspired fierce debates about the rights of citizenship – debates which would have been virtually unimaginable before the 1790s. Pitt’s critics, whether Tory, Whig or dissenter, attacked the government for defending what they perceived to be despotic monarchies abroad while suppressing basic liberties at home (Harling, 1996: 56-57). Another element were the particularly fierce accusations of Old Corruption towards the Bank of England. The outbreak of war with France in February 1793 had found the British public and country banks unprepared, leading to one of the worst financial and commercial crises that England had experienced up to that time. In view of the long period of virtual demonetisation of the historic silver standard, and the loosely enforced but still economically significant prohibition on the melting and export of British coin, country banks’ practice of issuing paper notes that could not be fully backed by precious metal became their Achilles heel.<sup>142</sup> Many country banks went bankrupt. The Bank of England was criticised by various pamphleteers and in both Houses of Parliament for its failure to act in support of these little banks. All talk was about the dependence of the entire British banking structure on the Bank of England; the need for the Bank to act as a lender of last resort, and ease credit in the face of a domestic internal bank run (Fetter, 1965: 12-16). In the years thereafter, tension came down somewhat, as new country banks sprang up. By the 1810s there were several hundreds of local banks that issued a myriad of local bank notes (Presnell, 1956; Hewitt, 2003). Banking became the central channel through which money was created, as banknotes came to represent around 60% of the supply of money in the early 1810s (Marchal and Picquet-Marchal 1977: 84). This success came with its own increased monetary management dilemma: how to restore convertibility of the system without impairing industrial growth based on credit means?

Another element of “Old Corruption” that was threatening to destabilize the eighteenth century settlement, was the growing contradiction between, on the one hand, landlords’ continuing paternalism towards the “lower ranks”<sup>143</sup> - the principle that only a small elite could embody the principles of Anglican voluntarism, and, on the other hand, their abdication to arguments of financial individualism, re-energised by a new wave of nonconformist entrepreneurs in the provinces. Economic hardship and change led many workers to appeal to Parliament for protection for either wages or apprenticeship qualifications; but Parliament was unwilling to grant such protection, since in practice much of it had long since fallen into disuse (Brown, 1982: 71). The fact is that until 1795 the establishment had been willing to pay some of the price of filial obedience in terms of the paternal protection provided by the Speenhamland system. From 1795 then onwards they held on to the ends of paternalism without providing the means for it. While denying paternal protection, the establishment refused workers the right to negotiate wages for themselves. The Combination Acts of 1799 and 1800 were the first symptoms of the establishment’s foundering authority. Many others would soon follow.

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<sup>123</sup> Intolerance of Catholics was not only rooted in law, but also in the way Britons chose to remember and interpret their own past. According to the Britons, God watched over them with a particular concern (Colley, 1992a: 20). They had a mission, a distinctive purpose. It was widely believed that while the French religion of

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catholicism wallowed in irrationality, the British, by contrast, enjoyed a truly rational religion. And since the French were oppressed by a bloated army and by absolute monarchy, it was all too manifest by comparison that the British were free. It is only with 1829 Catholic Emancipation Act that most civil disabilities, including the prohibition of sitting in the House of Commons, were repealed. But the Protestant worldview which allowed so many Britons to see themselves as a distinct and chosen people persisted long after the passing of the Catholic Emancipation Act in 1829. For many Victorians, the massive colonial empire conquered through so much warfare represented conclusive proof of Great Britain's providential destiny (Colley, 1992a: 368-9). That the aggression against Catholics functioned more as a symbolic rallying cry for national unity in the face of foreign enmity than as a means to combat a real internal threat is exemplified by the fact that, in terms of their numbers, the Catholics by any account represented at most a mere two per cent of the population (Speck, 1988: 170).

<sup>124</sup> Apart from the effects of being a compact island held together by, on the one hand, a relatively advanced system of canals and roads, and, on the other hand, a flourishing free trade and a growing urbanisation from the eighteenth century on, Great Britain owed a substantial part of its self-definition to Protestantism. Protestantism provided the majority of Britons with a framework to interpret the past and make sense of the present, by enabling them to identify and confront enemies (Colley, 1992a: 55). It was religion that first converted peasants and workers into patriots, long before the onset of modernisation in the shape of railroads, mass education, advanced press networks and democracy (369). Especially in foreign policy affairs, and most notably in wars, protestant duties were used as mobilisation tools by elites. This logic of antagonism did not only apply to Catholic France. Most tellingly, though the Dutch Republic also identified itself as a protestant nation, the British portrayed it not so much as a protestant nation than as a deprived nation focused on material gains. So, when the Dutch States-General rejected Oliver Cromwell's suggestion of an Anglo-Dutch offensive alliance against Spain and Portugal with a view to dividing the Iberian colonial empires between the two Protestant powers, the English dictator sourly remarked that the Dutch preferred gain to godliness (Boxer, 1965). Ironically, because the English commercial ranks had taken the successful Dutch Republic as their commercial example, they first focused on eliminating the rivalry of the Dutch with their market and ocean transport monopoly in Europe through a series of Navigation Acts. After having fought three wars over the issue in the seventeenth century, the English finally had succeeded at the turn of the century to acquire the entire colonial market (North and Thomas, 1972: 149-150).

<sup>125</sup> See for instance Colley (1992b) and Riemersma (1967: 29-30).

<sup>126</sup> The English or Anglo-Saxon empire was from every point of view a national empire, an expression of the supreme authority exercised by the ruler over the different elements which made up the population of England. The Anglo-Saxon Empire found its fulfilment in the strong kingdom which William the Conqueror and his successors were able to establish in England (Folz, 1969: 43-44).

<sup>127</sup> Munro (1992: 298) reports that the first recorded ban – repeating earlier edicts – was Edward I's Statute of Stepney of 1299. In actual practice licenses for the export of English coin were fairly readily granted and sold. The total ban remained on the statute books until 1663, when the re-export of foreign coins and bullion was finally permitted. With Peel's Law of 1819 full freedom to export specie was finally granted.

<sup>128</sup> For instance, as early as January 1352, by the Statute of Purveyors, Parliament exacted the King's promise never again to "impair" the current gold and silver coinages in weight or fineness, but to restore them to their "ancient state"...There were very few debasements after that, and all had to be obtained with Parliament's consent. No other West European nation even approached such conservatism in its mint policies (Munro, 1992: 191)

<sup>129</sup> Clearly, from the 1740s to the 1830s, and again in the 1980s, these reinventions were very imperfect; in each period an oligarchy afraid of democracy and intent on the status quo consolidated and managed to get too uncontested a grip on the State and civil service machinery.

<sup>130</sup> Disraeli would be the first "modern" representative of the Tories to reinvent this tradition.

<sup>131</sup> This struggle started with the pagan Saxon revolt against the Frankish converts to Christianity, and would not end until the forced conversion of the last Scandinavians after 1100

<sup>132</sup> Munro (1992: 298) reports that the first recorded ban – repeating earlier edicts – was Edward I's Statute of Stepney of 1299. In actual practice licenses for the export of English coin were fairly readily granted and sold. The total ban remained on the statute books until 1663, when the re-export of foreign coins and bullion was finally permitted. With Peel's Law of 1819 full freedom to export specie was finally granted.

<sup>133</sup> The Long Parliament held from 1640 until the Restoration in 1660. It was summoned by Charles I after his defeat in the second Bishops' War.

<sup>134</sup> Disraelian Anglican democracy in effect meant both the reorganisation of the party machine so as to make it more open to the urban middle class and the promotion of policies appealing to the working class (Blake, 1997: 147-148).

<sup>135</sup> From the shadows of the Exchequer which had previously eclipsed it.

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<sup>136</sup> "It was asserted, on the one hand, that departmental inefficiency in collecting the revenue deprived the Crown of income which it ought to have received, and, on the other, that laxity, or worse, in controlling disbursements resulted in the waste or actual malversation of public funds. Incompetent or dishonest local officers...accept gratuities to turn a blind eye on defaulters, and, by mendacious affidavits, 'swear the King out of his revenues'" (Tawney, 1958: 165).

<sup>137</sup> The principle of *terra nullius* embodies the idea that land and other resources not effectively utilised by indigenous peoples can legitimately be expropriated and developed by a superior invading nation more competent to do so.

<sup>138</sup> At the heart of the political outlook of the Country Interest was concern with freedom and "English liberties", their condition and prospects. Corruption, in the form of illegitimate influence – bribery or other patronage techniques – was seen as a major threat to these liberties, as it weakened the public spirit of the constitution. The condition and display of public spirit were portrayed by Country writers as being crucial to the defence of liberty and to the power and influence of the nation abroad... On this view, the major task facing the Country Interest was how to recreate the social and moral basis for a cohesive, prosperous and powerful Britain. The weak condition of public spirit threatened, the loss of everything that was dear to Britons – their independence, their freedom, their commerce and their religion (Harris, 2002: 69). Not surprisingly, the Conservatives who came in power at the end of the 18th century increasingly used Anglican discourse of paternal cohesion and the defence of the National Church as a way to counter claims of corruption (Sack, 1993). Against the Tories, a coalition of Whigs, liberals and dissenters offered their own version of religious probity, grounded in evangelical voluntarism.

<sup>139</sup> From the mid-eighteenth century onwards, the twin perceptions of the pervasiveness of corruption and the need for a restoration of virtue united many of those who sought political change in mid-eighteenth century Britain. The perceptions were not new. Under Walpole, Tory poets such as Alexander Pope had used their verse to comment on what they saw as the degeneration of society and culture... from the early 1740s these perceptions became ever more important. People like William King, the Jacobite Principal of St Mary's Hall, Oxford University, claimed that the people had grown corrupt and that the source of corruption was luxury. There had been a time when Britons had retained their ancient frugality and strictness of manners, together with a fierce zeal for liberty. MPs had been chosen with the utmost care and foresight. No candidate had been elected who was susceptible to bribery... Yet, now only God could rescue the nation from calamity and ruin. The story of opposition politics in this period is the story of the relationship between increasingly desperate hopes for national renewal and revival, and a deepening disenchantment with the politics of the Hanoverian regime and a growing conviction that parliamentary politics was incapable of delivering reform. As the disillusionment grew, so did a tendency to look for heroic figures to effect reform, be he the Young Pretender, or Frederick, Prince of Wales or even Pitt the Elder (Harris, 2002: 67-69).

<sup>140</sup> Simplified populist rhetoric of this sort provided a link between 'country Tories' of the City of London in the 1730s and 1740s and democratic radicals in the late eighteenth and early nineteenth centuries (Evans, 1994: 156).

<sup>141</sup> A serious contradiction lingered in Tory Country politics. On the one hand, the landed basis of the Country interest claimed that the Whig oligarchy threatened to overturn the legitimate interests and influence on government of property, especially landed property, and the values with which this was associated – honour, virtue, and public spirit. It represented the subversion of the normal, proper social basis of politics, and its replacement by the rule of the 'lowborn and upstart'. ... On the other hand, from the 1730s onwards, the Country Interest absorbed and expressed the grievances and aspirations of non-landed sections of society, especially those of traders engaged in commerce, not stockjobbing. There thus was a significant tension in Country ideology between supporting trade as an important national interest and a vision of society and social values that were essentially pre-commercial. Country writers were often critical of commercialisation, seeing in it the rise of the power of money and self-interest in society. The elevation of commerce as a national interest was one way of resolving the contradiction (Monod, 1989). Another way of resolving the contradiction was to portray commerce as constituting another natural interest in the body public, in contrast with stockjobbing. In effect, a dividing line was soon drawn between the "posse of stock-jobbers, contractors, remitters... and the fair and upright exporter". There was a strongly populist, republican edge to Country politics, with propagandists frequently pointing to how the English Revolution was a mere reassertion of the popular origins of government and liberties (cf. Harris, 2002: 71).

<sup>142</sup> During the eighteenth century the demands of trade, industrialisation, and shortage of coin during periods of war encouraged the growth of local banks and the use of paper money.

<sup>143</sup> Despite the whole enclosure movement and the repeal of paternalistic laws, it is misleading to see paternalism as being deliberately abandoned at the end of the eighteenth and the beginning of the early nineteenth century.

## 6. DUTCH FINANCIAL INSTITUTIONS (1815-1930)

### 6.1 Changing geopolitical opportunity structure (phase 1)

The process of nation-state building that followed the Patriot Revolution and the French occupation after 1813 brought to surface several contradictions between geopolitical and domestic dynamics of democratisation. These contradictions mostly had to do with the reality that, in a world of consolidating nation-states, the old confederal settlement of the Dutch Republic had become peculiarly outdated. The legacy of provincial autonomy had caused economic, civic and political life to remain much too tentative and small-scale in comparison with life in England, France or the United States. Furthermore, the confusion of the Napoleonic regime – as well as William I's initially muddled national policies – had stirred investors' distrust and caused the national debt to explode to 200% of real national income (Jonker, 1996: 86). Gone were the days of comparatively lower national debt interest rates (Jonker, 1997), and the benefits of international investment spill-overs. Now the Golden Age's legacy of a low-cost geopolitical vantage point was finally crumbling, a renewed mobilisation of people and resources in terms of national traditions of economic wealth, civilisation and State development was in order. The position of the new entity of the Netherlands as a modern platform of self-determination in the Western world system depended on it. In particular, the following leadership problems had to be resolved. While the city-state of Amsterdam had fallen back to a secondary or even third-rank status in the new geopolitical reality of the Pax Britannica, agricultural export coming from the outer provinces had become a main draughthorse of economic growth. The Dutch State, however, had not yet come to terms with the reality that its newly established territory of the United Netherlands harboured two potential nations which were largely unconnected and to some extent even antagonistic<sup>144</sup>.

On the one hand, the Netherlands harboured a cosmopolitan, secular and financial nation associated with Regent traditions of democratisation, concentrated in the Holland city-states, and with roots in Dutch maritime and colonial trade. On the other hand, the Netherlands was home to a provincial, religious, agricultural/industrial nation, associated with Orangist traditions of democratisation, and concentrated in the outer provinces<sup>145</sup>. The two catholic provinces of Brabant and Limburg<sup>146</sup>, in particular, formed a challenge to the Regent nation. During the era of the Dutch Republic, these two provinces had been denied independence, in contrast with the original seven united provinces. As "generality territories", they had been under firm central control of the Holland Regents. What would happen in the Kingdom of the Netherlands, a territorial framework in which Brabant and Limburg were granted the same formal rights and duties as the other Dutch provinces? Popular opinion in Brabant and Limburg was that the Holland Regents had never really wanted to incorporate them in the Dutch Republic, except for financial debt reasons.<sup>147 148</sup> The predictable reaction in these two provinces was an attitude of isolationism, fostered during the preceding centuries as a defense against any kind of foreign occupation - including Holland domination.

#### *a) Cosmopolitan, secular, financial nation*

When King William I came to power in 1813<sup>149</sup>, he was the first of the Orange family to have at his disposal something like a unitary state, a legacy of the French

occupation which was soon recast in Patriotic terms. This enabled the King to launch a national policy of economic recovery<sup>150</sup>. In particular, William I proposed the foundation of the Dutch Bank (1814) with an eye on “nationalising” banking services and credit transactions. The vision of William I was to set up a circulation bank that, by granting credit, issuing notes and standardizing the currency of exchange in the whole country would bring the languishing economy back to life. Thus, William of Orange envisioned the Dutch Bank as an extension of the State in matters of debt payments, credit and coin operations (Jonker, 1999: 60). The leadership of the Dutch Bank – recruited from long established lines of Regent elites – did not share the vision of the King, however, especially when it came to expanding credit operations beyond Amsterdam and opening branches nation-wide. Nor did the management accede to the request to advance money to the government, because it felt this would put in peril the trust of foreign and domestic investors in the Amsterdam exchange market.

Generally speaking, the King’s economic policies lacked grassroot support.<sup>151 152</sup> Not surprisingly, the 1840s saw an accumulation of economic, civic and political pressures on the monarchical basis of the Dutch polity, above all by Liberals, but also by Catholics<sup>153</sup> (Gladdish, 1991: 11-12). Following the English Liberals’ efforts to abolish the Corn Laws, the Dutch Liberals challenged the “old corruption” of controls, subsidies and tariffs maintained by the Dutch government, while promoting freer trade<sup>154</sup>. When in 1848 a wave of constitutional reforms became apparent in Europe, the Liberals, from being a minority section with little power, all of a sudden were promoted to the role of constitutional reformers of the Netherlands<sup>155</sup>. Liberal premises finally led to the creation of a national State apparatus wedded to the purpose of promoting a secular civilisation ideology – and intolerant of any interference of the Reformed Church in public matters.<sup>156</sup> Also, a number of fiscal and monetary reforms were taken up in the Dutch constitution. These reforms completed the breakthrough begun 50 years earlier, creating the necessary preconditions for a sounder pattern of national economic growth. Within 20 years, a national financial system came into being, channelling deposits to the Amsterdam stock exchange and extending advances through the agency network of the Dutch Bank. In the period 1844 to 1914, budgetary and taxation matters gradually came under control of parliamentary institutions<sup>157</sup>. Because the constitutional changes gave a large degree of autonomy to the liberal Regents at the helm of the Dutch Bank, the demands of “nationalisation” of the Orangist faction on the banking sector remained largely without avail. As a result, when it came to extending credit and deposit facilities nation-wide, Dutch banking century in the nineteenth century remained underdeveloped in comparison to banks in the neighbouring countries of Belgium, England, France and Germany.

***b) Provincial, religious, agricultural-industrial nation***

Two elements aggravated the Regent/Orangist, Holland/outer provinces and financial/industrial dualisms which had lingered since the eighteenth century, and which hampered a new nation-state settlement (Van Tijn, 1971). First, in the nineteenth century the “enlightened”, wealthy Liberals soon concentrated in the Holland cities, separated from the more Orangist outer provinces which experienced a religious revival. Second, while the political centre of the Netherlands was in North Holland, the agricultural and manufacturing sectors in the outer provinces for most of the nineteenth century functioned as the “draughthorse” of economic growth<sup>158</sup> (De Jonge, 1971: 222). With regards to the first issue, it is clear that the Holland Regents were facing an uphill task. Though religious freedom was guaranteed in the Kingdom of the Netherlands after the constitutional

changes of 1848, the monarchy and its Conservative following remained committed to the Dutch Reformed protestant Church (Gladdish, 1991: 10). The following figure demonstrates that this commitment prevailed over liberal secularisation efforts: about 98 percent of the Dutch population was affiliated to a Christian church in 1880<sup>159</sup>. As such, the Liberals<sup>160</sup> effectively had to live in the shadow of the “great-protestant party” of the Conservatives up to late in the second half of the century.<sup>161</sup>

The opening of international trade that followed Britain’s repeal of the Corn Laws in 1846, induced the Liberals to initiate an answer to the second problem: from the late 1840s onwards, they started investing considerable efforts in modern agricultural education.<sup>162</sup> In particular, the liberal government encouraged the setting up of regional agricultural societies, with the aim of spreading knowledge and use of new agricultural technologies<sup>163</sup>. Still, in the main, the liberal government held on to a laissez-faire policy. This policy became increasingly disputed at the end of the nineteenth century, when after the inflow of cheap American corn, agricultural prices had come under pressure again (from 1873 onwards). While between 1830 and 1880 there had been a rather strong correlation between the growth of agriculture and the development of Dutch GDP<sup>164</sup>, during the agricultural depression of 1882-1896 the link was broken. The economy grew strongly whereas agriculture struggled to overcome the crisis (Van Zanden and Van Riel, 2004: 280). And while France, Belgium and Germany proceeded to protectionist action, the Dutch government refused to follow suit.

Still, with the emergence of political parties, labour unions and other popular leaders with an active interest in the farmer population – most notably the protestant party ARP in 1878, the socialist labour union SDB in 1881 and the emerging catholic protectionist movement in the 1880s – the Dutch government developed a somewhat more active agricultural policy.<sup>165</sup> With the pressure of all these parties looming large, the government in 1886 established a State Commission of Agriculture. Entrusted with taking stock of the causes of the agricultural crisis, the Commission called for improvements in production methods. Two recommendations were made: send state-instructors to educate farmers about the possibilities of innovation (fertilisers, feedstuffs, milkfactories) and encourage the formation of a credit system for farmers. Beyond these recommendations, the Commission stuck to its liberal credentials and called for methods of farmer self-help, rather than State intervention. In fact, the old and “new social” Liberals who dominated the State from the seventies onwards were more focused on what they believed to be the real threat to a stable polity: the “Social Question” amongst the working classes. Due to their increased market dependency, a large new group of urban workers had emerged, which experienced very low wages and rising market prices for food and housing.<sup>166 167 168</sup> Likewise, the so-called small citizenry clearly felt the economic reverberations of this crisis, and in reaction urged for more protectionist policies.

## **6.2 First strategic interactions (phase 2)**

### **6.2.1. Civic organisations and political parties**

#### *i) Conservatives*

The “Conservatives” were an amalgame of locally organised, protestant groups who opposed both social liberal and socialist calls for more influence of the people on government. While the Conservatives never organised into a national party, their influence

in all established areas of Dutch life – political, civic and economic – was considerable. They occupied most governmental positions before 1848, and up to the end of the 19<sup>th</sup> century exerted considerable influence in government and parliament.<sup>169</sup> Conservatives embraced the Orangist tradition, both in their grudging acceptance of popular sovereignty – as imposed by the 1848 Constitution – and in their dislike of free trade. Conservatives opposed the enlargement of the franchise, and in particular sought to shield foreign policy matters from any “democratic” encroachment. And while Conservatives were in favour of a minimal government, they, on the one hand, rejected Liberals’ appeals to privatise the Colonial agricultural system, and, on the other hand, were mostly in favour of increased protection of the agricultural industry. Not surprisingly, the Conservatives generally speaking championed the cause of colonial banks, while being sympathetic to domestic agricultural cooperatives. In particular, they supported and held directorships in the Dutch Trade Company – “Nederlandsche Handel-Maatschappij”, the Dutch-Indian Trade Bank – “Nederlandsch-Indische Handelsbank”, the Colonial Bank, the Amsterdamsche Bank and of course the Dutch Bank, which in turn held participations or had substantial sway in the above banks. By the end of the nineteenth century, the Conservative movement had ceased to exist. Many of its former proponents meanwhile had joined the ranks of either the Union of Free Liberals – the more Conservative-minded liberals – or one of the confessional parties.

## *ii) Liberals*

The establishment of a unitary state in 1798, the administrative centralisation and abolition of local particularism (of for instance guilds) during the French occupation, and the recovery of independence from France in 1814 all combined into an excellent opportunity for the infusion of a national consciousness in lower strata groups that had not been fully included in the polity yet. Especially the economically thriving, but politically frustrated heirs of the Patriot Revolution, the emerging liberal” bourgeoisie, were eager to take the opportunity to present themselves as a societal avant-garde of new civilisation values. This first generation of Liberals was soon joined by Baptists<sup>170</sup> and Catholics who were promised religious equality and freedom.

Following their leader Thorbecke, Liberals wanted to break through the political, civic and economic monopolies of the old oligarchy, by formalising and modernizing the constitutional setup of the new nation-state of the Netherlands.<sup>171</sup> Keen on establishing a new national identity, the Liberals “through education and propagation of (common) culture among all classes” tried to broaden the circle of citizens and establish “a homogeneous Dutch nation” (Stuurman, 1983: 116-117)<sup>172</sup>. More than in England, Thorbeckian Liberals relied on the support of the citizenry at large, and not just the industrial bourgeoisie which was still weak and unorganised. On the other hand, similar to their English counterparts, the first generation of Dutch Liberals projected themselves as the champions of democracy<sup>173</sup>. In Table 6.1, I give an overview of the major antagonisms which arose in the Netherlands up to the beginning of the 1920s, and the main civic group or political party associations which ensued.

Borrowing from English Whig traditions of democratisation, Dutch Liberals argued that the “old corruption” of Orangist politics could only be tackled by a parliamentary representation which would exclusively serve the general, national interest, independent from local particularisms and sectional interests. Despite this new democratic fervour, the Liberals themselves lacked national unity: they were primarily organised in locally oriented clubs (cf. Koole et al, 1988: 9). In response to the national party

organisation of the reformed Protestants in the ARP, the Liberals formed their own, loosely organised party in 1885 – the liberal Union (Liberale Unie). The diversity of liberal opinions, however, was hard to reconcile with the discipline of party formation. A split became apparent between the so-called “Social Liberals” defending the general franchise, and the “Free Liberals” afraid of such a move.

**Table 6.1: Group antagonisms and alignments before WWI**

(source: Daalder, 1981; Kwaasteniët, 1985: 22)

Start period	Party-formation	Issue	Alignment group 1	Alignment group 2	Nature of antagonism
1848	No, only mass mobilisation	Restoration of catholic bishopric hierarchy	Liberals – (Catholics)	Conservatives – (Orthodox Protestants)	liberal >< anti-liberal
1868	Anti-revolutionary Party (1879)	School controversy	Liberals	catholic – Orth. Prot./ Socialist <sup>174</sup>	confessional >< non-confessional
1870s	Social-Democratic Union (1882) liberal Union (1885) Roman-catholic Electoral Union (1897)	Labour – Capital antagonism	Socialists	All other representative groups	upper >< lower ranks
1888	Social-democratic Workers’ Party (1894) Liberal-Democratic Union (1901) Christian Historical Union (1909) Roman-Catholic Electoral Union (1897)	Extension of suffrage <sup>175</sup>	Social Liberals / Socialists/ Anti-Revolutionaries	Conservatives / Catholics/ Orthodox-Historical Protestants	incorporation of the working classes in the nation-state
1900s, 1910s	Union of Free Liberals (1906) <sup>176</sup>	Protectionism	Catholics	Free Liberals / Anti-revolutionaries / Social Liberals	Protectionism versus free trade monetarism

The Social Liberals, backed financially and electorally by intellectuals and middle class citizens, founded their own party in 1901 – the Liberal-Democratic Union (Vrijzinnig-Democratische Bond)<sup>177</sup>. This party advocated State protection of Dutch workers in the same vein as its “new liberal” equivalent in England. Not surprisingly, the Social Liberals backed the endeavours of General savings banks and the State Postal Savings Bank; both institutions were meant to morally and materially elevate the lower middle and working class ranks. The “Free Liberals”, on the other hand, also founded their own party – the Union of Free Liberals (“Bond van Vrije Liberalen”) – in 1906 (Lucardie, 1993: 42). This party, which received the financial and electoral backing of wealthy bankers, merchants and citizens in especially the Holland provinces, advocated the importance of a minimal State focused on the defense of property, law and order. Despite its formal allegiance to free trade, the Union of Free Liberals was also keen to support a more conservative colonial policy. Indeed, the Free Liberals were not only disproportionately represented amongst the directors of new commercial banks and the Dutch Bank – who supported a conservative monetary and fiscal policy. They were also very much present in the Dutch colonial Banks, where they continued the policies and lifestyles promoted by their Conservative predecessors.

### *iii) Socialists*

In a typical continental European vein, Dutch socialism developed a secular, anti-capitalist doctrine focused on the abolition of private property and the socialisation of the means of production. Up to WWII, the Dutch socialist current coalesced in two national political platforms: the Social Democratic Union<sup>178</sup> and the Social Democratic Workers’ Party.<sup>179</sup> The first national platform was that of the Social Democratic Union, established in 1882<sup>180</sup>. Soon, a schism emerged between advocates of national “political” struggle, on the one hand, and international “economic” struggle on the other. The latter ultimately predominated, leading to the foundation of the Social Democratic Workers’ Party in 1894<sup>181</sup>.

This party presented itself as the Dutch representative of the international social democratic movement. Contrary to its predecessor, which only saw political solutions for workers’ problems, the advice of the leaders of the Dutch Internationale was to “found self-help banks, Savings banks, and shop unions...to help and support each other” (Brugmans, 1929: 271). Commercial banks, on the other hand, were seen as the enemy to be combated politically. The question which riddled the Social Democratic Workers’ Party was whether a combination of economic and political action – a stance in favour of the universal suffrage – could ‘bridle’ capitalism or only leave it essentially unchanged. By the beginning of the twentieth century, the party opted for the former view<sup>182</sup>. What relations did the Socialists maintain with economic organisations? The earlier Socialists generally had kept aloof from saving bank initiatives for workers; they were antagonistic to the idea that individual savings would be useful to workers, as they did not share the liberal purpose to infuse self-restraint in the worker population (Dankers et al., 2001: 396). Rather, they preferred workers to steer clear from middle class influence and improve the viability of their “authentic” lifestyle by investing in labour union membership, consumer cooperative membership or collective insurance plans. Gradually, the advice of the leaders of the Dutch Internationale to “establish self-help banks, Savings banks, and shop unions...to help and support each other” (Brugmans, 1929: 271) gained influence. Initial antagonism turned into conditional, unenthusiastic support for General savings banks and the State Postal Savings Bank.

#### *iv) Reformed Protestants*

In reaction to the restoration of the bishopric hierarchy in the Netherlands, a large group of orthodox Protestants in 1853 started a countermovement<sup>183</sup>, and joined up with a group of orthodox Christian parliamentary representatives. They invented a “reformed protestant” tradition of democratisation which seemed to reflect not only the frustration of the heirs of the nineteenth century revival at the new constitution, but also the frustration of their Republican predecessors.<sup>184</sup> This movement in 1873 culminated in the foundation of the first national political party in the Netherlands: the Anti-Revolutionary Party (Janssens, 2001). As the protestant traditions of other Western countries (cf. Badie and Birnbaum, 1983: 88-89), the Dutch reformed protestant tradition portrays the political system as organically linked to religion and thus directly dependent on the order of civil society itself. As such, the protestant tradition ordains that the development of an autonomous State should be as limited as possible. In the Netherlands, a special version of this protestant pattern developed. Having reconciled themselves with the fact that the Netherlands would never become a “truly” protestant nation, protestant vicars such as Kuyper developed the idea of “sovereignty in the own circle” (Zwart, 1996).

The concept of “circles” formed part of the Reformed protestant strategy to prevent national corruption and improve national authenticity by allowing for the alignment of family, company, school, science and church life in terms of the different Dutch denominational realities (Kickert, 2003: 129). The different Dutch circles would have to collaborate so as to make sure that no circle, not even the State, would threaten the self-determination of the other circles. The “circles” strategy provided two pragmatic solutions to the idiosyncratic problem of being reformed protestant in the Netherlands. First, the concept of sovereignty in own circles was an expression of the denial that the State could either have the monopoly of force or be the main proprietor of nationalism. The Reformed Protestants instead argued that politics was governed by the “Grace of God” and that the State did not have much bearing on the true protestant nation. Likewise, and not surprisingly, the reformed Protestants favoured an economic policy based on the separation of state and own circles. Second, the reformed protestant profoundly disliked cosmopolitan notions of “self-interest”. On the other hand, they had an aversion for not belonging to the “elected” leaders of the modern nation-state. To overcome this contradiction, the reformed Protestants developed a doctrine of “educated” self-interest: through a private school system, the own circle should be assured of an educational system which would be both modern – i.e. capable of being integrated in the nineteenth century nation-state world system – and “Godly” (Kruithof, 1990: 15). Also, as a reaction against the socialist movement that waved over Europe in the second half of the nineteenth century, part of the doctrine of educated self-interest entailed the promotion of harmonious collaboration between masters and workers<sup>185</sup>.

In sum, the reformed protestant focus on circles – with the protestant circle representing the one authentic Dutch nation – emerged as a reaction against the twin threats of liberal universalism and socialist statism or communitarianism in the nineteenth century. In collaboration with Catholics, protestant intellectuals not only vehemently agitated against the revolutionary tendencies of the socialist movement. They at the same time blamed the dominant liberal views of *laissez-faire* and free trade for the ongoing economic crisis, especially in agriculture. Helped by the absence of an industrial working-class, and through their alliance with Catholic leaders, Protestants succeeded in marginalizing liberalism and socialism as “corrupt” and “totalitarian”. By appealing to

other, more religious feelings, reformed protestant leaders appealed to a new sense of national identity, building on the Regent-liberal view that what the nation-state of the Netherlands needed to return to the successes of the Golden Age was not a revolution, but political-economic stability. As a result of the circle strategy, separate protestant schools, newspapers, a university, a political party, labour-unions, and farmer-associations were established. In terms of specific economic organisations, Reformed Protestants supported all circle-specific endeavours, be it savings banks or co-operative banks. Furthermore, the Godly duty to belong to the “elected” leaders of the modern nation-state induced them to look more favourably on especially colonial banks.

v) *Catholics*

Before the constitutional reforms, the catholic bourgeoisie allied with the Liberals, with an eye on emancipating the catholic religion from the yoke of the Dutch Reformed Church. Dutch catholic leaders had allied with Liberals against official papal policy – most notably in their advocacy of a separation of State and Church – for pragmatic reasons. Their overall purpose was to break through the dominance of the Dutch Reformed Church – the informal State church – in the Netherlands. The pact with Liberals held fast up to 1870. Already in the mid-sixties, however, the first signs of a rupture between Catholics and Liberals became visible. While Catholics had won the constitutional freedom to organise their own church by 1853, the Liberals had remained too anti-papist to grant Catholics the freedom to organise their own confessional schools. In addition, the liberal predilection for free trade was at odds with the increasingly protectionist catholic lobby, originating mainly from the provinces of Brabant and Limburg.<sup>186 187</sup> Finally, and most importantly, both pope Leo’s formulation of a “ghetto strategy” and Pius IX’ Syllabus Errorum (1864) sharply criticised liberalism. Dutch Catholics interpreted both writings as a call to withdraw from mainstream liberal nation-building influences (Zwart, 1996: 32). Thereafter, the catholic clergy started responding in a similar fashion as the Protestants to the twin threats of State or communitarian socialism and liberal cosmopolitanism<sup>188</sup>. Indeed, by the 1880s, the Catholics and Protestants had done the unthinkable: they had formed an alliance<sup>189</sup>. Even more than Protestants, Catholics started emphasizing the need for a “pillarised” style of political, civic and economic organisation, with the subsidiarity principle and civic corporatism as the main rules of the game<sup>190 191</sup>. The first principle entailed that the State would only intervene if the respective Protestant, Catholic, Socialist, or liberal pillars could not handle a situation themselves; the second principle implied that the elites of each pillar should strive to find harmonious solutions beyond pillarised boundaries.<sup>192</sup> In terms of economic organisations, the Catholics as the Protestants supported all pillarised initiatives. Given their timing and more defensive, agricultural country-centred attitude, however, Catholics more adamantly supported co-operative banks than Savings banks<sup>193</sup>.

While the protestant initiatives focused on the improvement of both industrial workers and farmers within a renewed Dutch nation, Catholics concentrated more on farmers and were more ambiguous about their contribution to one Dutch nation. Still, contrary to what was often alleged, Catholics did aspire to some form of nation-building (cf. Knippenberg, 1999)<sup>194</sup>. While Catholics for a long time were more defensive and covert in their approach to nation-building, they could fall back on two very resonant traditions of democratisation. On the one hand, Catholics reinvented the “Orangist” tradition of Pacification, as first practiced by William of Orange in Ghent in the second half of the sixteenth century. According to nineteenth and twentieth century Orangist

republicans, this pacification event came to epitomise the desire to unite on an equivalent basis and in one peaceful nation rivalling groups of Protestants and Catholics. On the other hand, Catholics also followed Roman-catholic teaching of the one universal and centralist nation-state, reminiscent of the era of the Holy Roman Empire: the nation guarded by God, Rome and the Pope. While the tradition of pacification would prove a fruitful nation-building strategy as soon as WWI – with the 1917 Pacification agreement, the latter tradition would have mainly damaging effects for the national standing of Catholics before WWII, dominated as Dutch popular opinion was by anti-papist feelings.

Meanwhile, Catholics championed a protectionist undercurrent in the Netherlands. This current originated mainly from the agricultural entrepreneurs and organisations in the southern, mostly catholic parts of the country. With that aim, Dutch Catholics by the end of the nineteenth century finally decided to complement their civic organisations with special-purpose political and economic organisations. The first party-political program from the Catholics was published in 1883 and in 1897 a union of Roman-catholic electoral associations was established.

In the next sections, I shall describe the economic organisational elaboration of the above nation-state contradictions. To provide some guidance to the next sections, I summarised the main economic organisational allegiances of the preceding civic groups and political parties in Table 6.2<sup>195</sup>. In the terminology of chapters 1 and 2, the different combinations of civic groups, political parties and economic organisations make for different – friendly or antagonistic – movements of democratisation. Together, they constitute a double nationalisation process (see chapter 2, section 4b).

## 6.2.2 Economic organisations

### *i) Dutch Bank*

The Dutch Bank – “Nederlandsche Bank” – the equivalent of the Bank of England and the Federal Bank, was founded in 1814 by King William. The Bank did not carry any responsibility for monetary or financial stability, and essentially was a commercial bank which was permitted to issue bank notes by the government. From 1850 onwards, economic wealth led to an increase in the demand for credit, which induced the Dutch Bank to become more of a finance company<sup>196</sup>. With the rise of private banks the Dutch Bank exchanged its role as finance company for business for one as finance company for private banks. All along, the Dutch Bank remained an essentially private, commercial bank. Much changed with the arrival of Nicolaas Pierson<sup>197</sup> at the helm of the Dutch Bank – from 1868 to 1877. Pierson durably imprinted the democratisation strategy of the Dutch Bank. While recognised as a competent banker, Pierson’s main innovation at the Dutch Bank was to turn the institution into a national representative rather than a mouthpiece of Regent rentiers in the City of Amsterdam.<sup>198</sup> Pierson, however, wanted the Bank to be representative to all powers in the country, while maintaining the constitutional centrality of Amsterdam and its stock exchange. From a confessional viewpoint, Pierson advocated a general christian outlook which was tolerant and respectful towards the freedom of religion and the rights of every individual person<sup>199</sup>. While Pierson doubted the intentions of the Catholics, he was entirely at ease with those of the Reformed protestant Anti-Revolutionaries.<sup>200</sup> For, according to Pierson, protestant puritanism was essentially republican, in contrast with catholicism which tended towards despotism<sup>201</sup> (Van Maarseveen, 1981: 141-144). Pierson, as his successors in the Dutch Bank before WWII,

espoused the view that the real strategy of the Roman-Catholics was to « put the interest of their church above the interest of the nation ». Therefore, Catholics could not be «good Dutchmen»<sup>202</sup>. Still, faced with the radicalism of both socialism and social liberalism, the successive presidents of the Dutch Bank allowed Catholics considerable freedom of expression and organisation.

Pierson drew the Dutch Bank out of its earlier, rather obscure, “private” existence, and transformed it into a more public bank, by linking domestic with international developments. Thus, in face of the increasing interdependence of money markets, and the threat of Socialism<sup>203</sup>, Pierson urged the Dutch Bank to develop a less exclusive style of leadership, assume a more active role in the the domestic and European financial system, and regularly publish information about international and domestic exchange rates, and interest rates. In relation with the 1866 crisis in England, he pointed to the necessity of a central bank as a counterbalance to international developments<sup>204</sup> (Van Maarseveen, 1981: 83). Through its initiatives at the Amsterdam Stock Exchange, its position in the Amsterdam network of interlocking directorates, and to a lesser extent its stake in colonial banks, the Dutch Bank soon punched well over its formal weight, especially with regards to setting the pattern of commercial banking. As a legacy of the successes of the Golden Age, the nineteenth-century city of Amsterdam still had a strong stock market culture and a well-developed network of local agents (notaries, lawyers and brokers) who would collect savings from wealthy individuals and channel them to the Stock Exchange. Still, after the demise of the Dutch Republic, the Amsterdam stock exchange had greatly diminished in dynamism and international importance. To reinvigorate the stock exchange, the Dutch Bank launched the “prolongation”, an on call money market technique first introduced at the beginning of the eighteenth century. The prolongation was a margin loan which, while callable at short notice, was typically rolled over or “prolonged”, whence its name.<sup>205</sup> The prolongation market was overcrowded, open and competitive: the principle of unrestricted public access was carefully upheld by the city authorities. It helped industrial and trade companies obtain direct short-term capital in a very fragmented way, via margin loans provided by investors without the intermediation of a banking system. Because of their widespread use, the prolongation loans were considered safe. In addition, the interest rate was attractive – it roughly tracked the London discount rate (Jonker, 1996: 96). The prolongation market did not disappear until short rates fell dramatically towards the end of the 1920s.

### *ii) Commercial banks*

In the 1860s, modern joint-stock banking belatedly entered the Dutch stage with the foundation of the Twentsche Bank by the baptist Blijdenstein and the setting up of the Rotterdamsche Bank by four protestant Rotterdam cashiers (Brugmans, 1963)<sup>206</sup>. The appearance of the first commercial joint-stock banks from 1860 to 1875 at first sight made this a pioneering period in Dutch banking history.<sup>207</sup> Yet, the denomination “pioneering” has to be qualified (Jonker, 1999: 93). By the mid-1870s the innovative drive of these commercial banks was largely spent. What is more, with the benefit of hindsight it became clear that these banks were far less revolutionary than first thought. The main innovation introduced by these new banks was quantitative rather than qualitative: though the capital invested in banking increased, the character of banking and the offered financial services did not change substantially. Indeed, new commercial banks covered much the same ground as the private banking firms and merchant bankers before. For instance, the Twentsche Bank’s profitability was based more on the strong, uniform demand for

Prussian currency and English bills, than on their close contact with domestic industrial entrepreneurs.

**Table 6.2: Different civic, political and economic alignments**

<b>Civic group/ political party</b>	<b>Economic organisation</b>
<i>Conservatives</i>	Colonial Banks
<i>Free Liberals</i>	Colonial Banks, Dutch Bank, Commercial banks
<i>Social Liberals</i>	General savings banks, State Postal Savings Bank (Mortgage banks)
<i>Reformed Protestants</i>	Co-operative banks (Colonial Banks, General savings banks, State Postal Savings Bank)
<i>Catholics</i>	Co-operative banks (General savings banks, State Postal Savings Bank)
<i>Socialists</i>	(General savings banks, State Postal Savings Bank)

In fact, it was as if the modernisation process from small, traditional organisations to large bureaucratised businesses in the second half of the nineteenth century remained unnoticed by the commercial banks. The lack of innovation in the banking sector is corroborated by three facts. First, provincial banking never really got off the ground and by 1914 had virtually disappeared (Jonker, 1997: 119).<sup>208</sup> The Dutch financial system that spread outwards from Amsterdam from the 1850s onwards did succeed in fulfilling a demand for services from the regions, but at the cost of stifling local initiatives. The system was operated by Amsterdam-detached agents rather than independent banks and bankers in the provinces (Jonker, 1996: 276). Second, in 1890 only 37 commercial banks had taken up the legal personality of incorporated company with public limited liability (NV).<sup>209</sup> Third, while elsewhere on the continent banks were financing the organisation of heavy industry, Dutch banking had been conspicuously absent in this regard: Dutch bankers continued to focus on the transfer of domestic savings to foreign investments.<sup>210</sup> Indeed, up to WWI, commercial banks were only interested in financing international trade activities. Increasingly, commercial banks showed interest in

colonial endeavours in the Dutch Indies, either via a branch network often or through the intermediary of colonial banks (Taselaar, 1998: 64). Meanwhile, a wave of banking consolidation from 1911 onwards, together with a major shakeout of minor and regional banks in the crisis that started in 1920 (in 1920-22 a total 10 of bad debts amounting to nearly 10% of the assets of the biggest five banks was written off), left the general banking industry dominated by the “Big Five” banks.

### *iii) Savings banks*

Already in 1784, the Society for Public Welfare (“Maatschappij tot nut van ‘t Algemeen”) – founded by Baptists – had set itself the purpose to “elevate the people and the nation by spreading enlightened knowledge and virtue” (Van Leeuwen, 1996: 247), most notably by infusing the lower strata with the virtues of self-help rather than charity. In order to achieve its purpose the Society had developed a decentralised structure, with local departments governing their own affairs<sup>211</sup>. These departments not only made a vigorous contribution to social regeneration by setting up libraries and schools, but, through the efforts of liberal leaders, from 1817 onwards were also at the origin of the system of general savings banks in the Netherlands<sup>212</sup>. The number of Savings banks grew steadily: from 13 in 1818, there were some 191 at the end of the 19<sup>th</sup> century. While the Social Liberals were the most important supporters of general savings banks, they were fully aware that these banks were not reaching the masses of the lower working classes. In order to spread the habit of saving amongst the poorer, they in 1881 successfully pushed for the establishment of a State Postal Savings Bank. The two types of banks were regarded as complements rather than competitors.

### *iv) Mortgage banks*

The 1860s also saw the creation of mortgage banks: 17 in the period 1860-1890. These banks were focused on the urban market, not on the countryside. In face of increasing urbanisation and industrialisation, the Dutch mortgage banking sector experienced an unprecedented growth from 1890 onwards. The mortgage banks were mainly established in Amsterdam, Rotterdam and Utrecht, and generally speaking were led by Social Liberals<sup>213</sup>.

### *v) Co-operative banks*

Contrary to the situation in Germany, the cradle of co-operative banking in Europe, agricultural co-operative banks in the Netherlands were established after the establishment of producer Co-operatives, most notably dairy and marketing Co-operatives.<sup>214</sup> Although the Dutch co-operative farmer movement was comparatively late in starting, it was able to organise a very efficient system for the distribution of new inputs and the marketing of products in about twenty years – the period 1893 to 1914 (Van Zanden, 1985: 51). Through the agency of producer and sales Co-operatives, Dutch farmers had been able to leverage economies of scale and push back local merchants who had played a dominant role in many local agricultural markets during the years of depression. Still, since the need for short-term capital was high, particularly among small farmers, the position of these merchants could only be completely eliminated through the wholesale reorganisation of the capital market. As advised by a governmental committee in 1888, a system of co-operative banks would facilitate this reorganisation. In 1896, the first local co-operative banks were established. In 1898 two Central Banks<sup>215</sup> were created to facilitate collaboration between the local banks: the officially neutral, but effectively protestant-neutral central bank in Utrecht, and the catholic central bank in Eindhoven.<sup>216 217</sup> These two central banks fulfilled several, basic functions. They managed the surplus

savings that could not be put out by local affiliate banks within their work area. In addition, they saw to the central balancing of cash surpluses and deficits of local banks. Also, they supervised the liquidity position of affiliated banks and provided them with credit benchmarks and restrictions. Finally, the Central co-operative banks invested the deposited moneys as securely and profitably as possible, on the one hand, by buying treasury bills and bonds from public bodies, and, on the other hand, by lending money to big Co-operatives and other agricultural institutions (cf. De Boer, 2002a: 15).<sup>218</sup>

## **6.3 Firms' strategic positions in new settlements (phase 3)**

### **6.3.1 Emergence of democratic settlement**

In reaction to the national educational aspirations of the Liberals, Reformed Protestants and Catholics allied in the so-called “school-struggle” to push for a pillarised democracy in the Netherlands. Once again, religion proved to be one of the most resonant sources of mobilisation in the Netherlands (see Appendix C). The latter alliance easily won the struggle. Four pillars took shape between 1890 and 1920, based on the Reformed Protestant notion of “circles”: the protestant (officially the neutral pillar), the catholic, the liberal and the socialist. These pillars, which encompassed most educational, religious and economic organisational life, were an expression of an emerging “multi-ideological” and “multi-regional” Dutch nationalism (cf. Knippenberg, 1996). The pillars were informally negotiated with the 1917 Pacification agreement, and institutionalised with the 1920 Primary Education Act – which set the prototype for the settling of other disputes among the confessional and the secular parties.

One of the reasons the Pacification agreement and Primary Education Act provided a highly successful basis for a settlement between rivalling religious and liberal groups was historical resonance: especially the former could be easily interpreted as a reinvention of the 16<sup>th</sup> century Pacification of Ghent by the Prince of Orange. According to nineteenth and twentieth century Orangist republicans, this event – as its early republican equivalent – epitomised the desire to unite in one peaceful nation rivalling groups of Protestants and Catholics.<sup>219</sup> Thus, the 1917 Pacification Agreement and 1920 Education Act symbolized the Dutch predilection to depoliticise and resolve differences in elitist decision-making bodies, according to the tradition of proportionality. The principle of proportionality, as applied to the subsidizing of private and public schools, would become one of the main devices for the allocation of government money in not only education, but other sectors of society such as health care and housing as well (De Kwaasteniet, 1990: 38). Both agreements also symbolized a predilection for two other traditions of democratisation: the traditions of “Orangist democracy” and “living together apart”. The former tradition refers to the principle that issues of social mobility and integration should be resolved according to the established rules of one’s own particular group or denomination. Furthermore, the tradition of Orangist democracy has long proved an important vehicle to national identity building – alongside the tradition of pacification, which is more geopolitically oriented. Thus, the school struggle that led to the Primary Education Act not only stimulated subnational religious and secular identities, but also national feelings and a national identity. At the end of day, the school struggle – based as it was on the application of Orangist democracy – would strengthen the nation-state level as against the local or regional level. National organisations would come to dominate the

school struggle – certainly after WWII. Thus, it became clear that the Roman Catholic Church in the Netherlands first of all was a Dutch church, and only secondarily a part of the universal Church; “the standards of behaviour, which had been formulated by the Brabant (and Dutch) clerical elite, were derived from both the rules of the church, and from the virtues of the Dutch state, which were propagated by Dutch Protestants and Liberals” (Meurkens, 1985: 172-173).

In terms of the tradition of living together apart, Catholics developed the most unified pillar, encompassing almost all economic, civic and political organisations in the provinces of Brabant and Limburg. Armed with a “frontier mentality” (Van Heek, 1954), Catholics rallied around the motto “in isolation lies our strength”. Because they saw the Netherlands as an essentially Calvinist nation<sup>220</sup>, Protestants, on the other hand, projected themselves as being part of the first and leading nation-building pillar. Protestants’ eagerness to be at the centre of federal nation-building efforts had the unintended effect of rendering the protestant pillar less homogeneous than the catholic pillar.<sup>221</sup> Socialists, for their part, remained side-lined up to WWII, mainly because of their antagonism towards any nation-building endeavours – ethnic or religious.<sup>222</sup> Considering themselves the natural leading stratum of the Netherlands, the Liberals, finally, opposed the pillarisation movement, and resisted the constitution of circle-bound liberal institutions.<sup>223</sup> This explains why, despite their early prominence in Dutch politics, Liberals grouped into formal organisations comparatively late, and mostly with defensive purposes against the growing political militancy of the religious groups. They failed to neutralise popular grievances of a democratic deficit – coined “the crisis of participation” by the other parties. Up to WWII, the Liberals failed to present a strong and integrated civic and political front.

By default of organised associations which represented numbers and mass activity, the Liberals had no other recourse than to rely on established positions in business, the professions, the universities and the media to remain influential in the Netherlands (Daalder, 1989: 11). Eminent Free Liberals and bankers such as Pierson and Mees tried to exert influence on the financial policies of the Dutch government and the Dutch Bank through two types of connections: their connections with English and North-American central bankers – both of which championed a tradition of City monetarism though linked with different traditions (see chapter 11), and through the agency of the « Free Trade Association»<sup>224</sup> (founded in 1896). Banking on the resonance of “Golden Age” precedents of sound finance, and helped by the general upturn of the economy at the turn of the century, the Free Liberals ultimately managed to suppress the resonance of mostly Catholic appeals for protectionism by promoting new habits of “City monetarism”<sup>225</sup> (De Vries, 1974: 275). From then onwards, the following rationale became an electorally sanctioned, vested foreign policy adage: « as the Dutch public benefits from an uninterrupted access of its entrepreneurs to the world market, government policy should only be used to promote free access, not to impede it » (De Boo, 1989: 15).

As announced above, the tradition of City monetarism that had been ingrained in Dutch monetary affairs greatly helped the Free Liberals in Amsterdam and Rotterdam to escape the limits of pillarisation. It allowed them to expand their (limited) vision of a cosmopolitan nation-state: a nation-state centred in Amsterdam and other Holland city-states – The Hague and Rotterdam, whose wealth to a large extent depended on expanding foreign trade in general, and business relationships with the Dutch Indies in particular. The revival of the Amsterdam stock exchange as a centre of international finance after WWI contributed disproportionately to the fulfilment of the Free Liberals’ aspirations.

Because international monetary aspirations and a Dutch empire were seen as the central success factors of the Dutch Golden Age, they provided an important rallying point in popular opinion equivalent to or even stronger than the domestic issue of pillarisation. The word of mouth was that, without the Amsterdam stock exchange and the colonies, the Netherlands would lose its strength of character: it would be relegated to a position similar to Denmark, the benign agrarian dwarf without international ambitions (Nobel and Fennema, 2004: 15). Helped by the existence of a prolongation market and a policy of international neutrality during WWI, the Amsterdam stock exchange was able to play a crucial role as a financial intermediary. This was especially so in the immediate aftermath of WWI, when Germany and its former enemies reluctantly renewed commercial ties.<sup>226 227</sup>

Principles of pacification and monetarism constituted the main habits of coordination in the Netherlands between 1870 and 1930. In this period, a majority coalition of former rivalling groups – Reformed Protestants, Catholics and Free Liberals – agreed to use these principles as focal points against a “common enemy” – the Socialists<sup>228</sup>, and, to a lesser extent, the Social Liberals. But this majority coalition could only have formed thanks to the Pacification agreement, the 1917 answer to lingering cooperation problems. The Pacification agreement’s success was conditional on the successful implementation of three co-operative principles: varieties of respectively the traditions of living-together-apart, Orangist democracy and proportionality. Successful pacification was not only predicated on the thorough depoliticisation of economic and civic issues in elitist decision-making bodies. It equally depended on instituting conditions of “circle confederalism”, under which the lower ranks could trust the leaders of their own circle to protect their interests – “Orangist democracy”. Finally, it was based on providing all minorities – even the Socialists – with a proportional voice and share of the pie. If only by lack of an alternative, all rivalling groups in the Netherlands came to support these co-operative principles as mechanisms of redistribution. In the end, even the Socialists, who through the Dutch Internationale had long expressed uncompromising aspirations, did.

The effect of the institution of a pillarised democracy was that individual social mobility was extremely limited in the Netherlands – probably amongst the most limited of all Western European countries (cf. Higgett, 1971). In many ways, to get all social classes on board in the new nation-state of the Netherlands, individual mobility was sacrificed in favour of more opportunities for the old colonial and financial elites to enrich themselves, more opportunities for religious groups to become self-sufficient, and more opportunities for previously excluded groups – most notably Catholics – to acquire a more equal status.

### **6.3.2 Formal evolution of the suffrage**

As announced above, a democratic settlement was established between the different rivalling groups in the form of a package deal known as the Pacification Agreement of 1917. Based on a fine-tuned system of elite consultation across the different pillars, this deal entailed financial equality for christian-democratic schools, and universal (manhood) suffrage (see table 6.3) as requested by social democrats (Andeweg, 1989: 45-47). Since a transition to universal suffrage under the then operative majoritarian system would have wiped liberals out in virtually every Dutch district, they were eager to see the basis of the suffrage changed to a system of proportional representation. This system together with a list system and the treatment of the entire country as a single electoral district allowed the liberals to survive (cf. Van den Berg, 1979: 455-9). The proportional representation system also worked to the advantage of Catholics. Under the new system of

nation-wide proportional representation, the excess of catholic votes in southern districts and the votes of catholic minorities in northern districts were no longer wasted<sup>229</sup>.

**Table 6.3: Evolution of the suffrage in the Netherlands**

<b>1848</b>	Right to vote based on census (based on income and status)
<b>1887</b>	Census lowered to all males over twenty-three with a residence and “signs of capability and wealth”
<b>1917</b>	Universal suffrage for men
<b>1919</b>	Universal suffrage for women

### 6.3.3 Financial institutions’ strategies of democratisation

How did Dutch commercial, general savings, state postal savings, cooperative and mortgage banks perform in terms of the six strategies of democratisation introduced in chapter 3? To illustrate the following discussion of their performance, I visualise the growth of different Dutch financial institutions in terms of total amounts of deposits received In Figure 6.1., In Tables 6.4a and 6.4b, I provide more specific growth and marketshare figures.<sup>230</sup> Finally, table 6.5 provides a ranking of the effectiveness with which commercial banks, mortgage, savings and co-operative banks have deployed each strategy during the period 1900 to 1930.

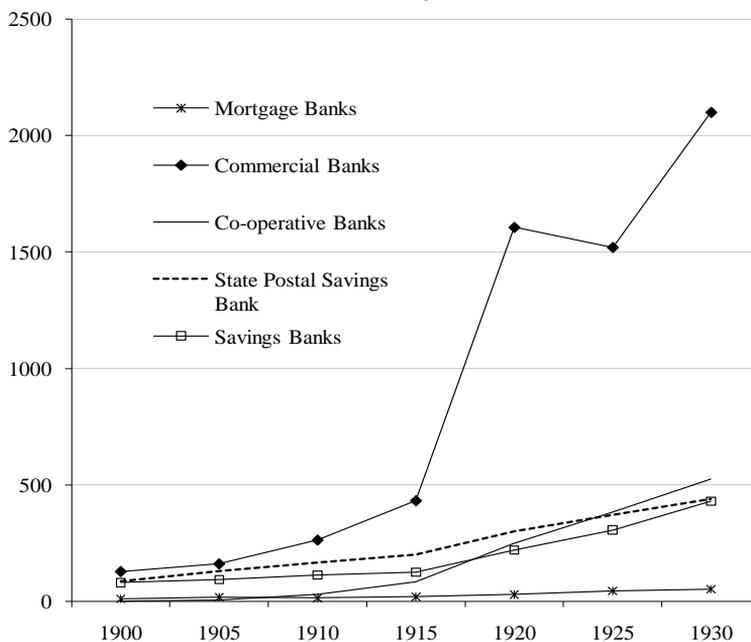
**Table 6.4a: Growth and marketshares of varieties of banks in terms of deposits**

Year	Commercial Banks	General Savings Banks	State Postal Savings Bank	Co-operative Banks	Mortgage Banks
<b>1910</b>	263	113	165	29.4	14.4
<b>1915</b>	432	125	200	84	19.3
<b>1920</b>	1606	220	300	248.1	28.6
<b>1925</b>	1520	306	370	383	44
<b>1930</b>	2100	430	440	525	52
<i>Growth x</i>	<i>7.98</i>	<i>3.8</i>	<i>2.66</i>	<i>17.86</i>	<i>3.61</i>
<i>Share %</i>	<i>59.2</i>	<i>12.1</i>	<i>12.4</i>	<i>14.8</i>	<i>1.5</i>

**Table 6.4b: Growth and marketshare of varieties of banks in terms of total assets**

Year	Commercial Banks	General Savings Banks	State Postal Savings Bank	Co-operative Banks
1901	547.8	91.9	94	(2.2)
1910	863.7	129.1	178	30.8
1914	1150.1	140.6	202.7	59.3
1918	2949.1	185.4	270.8	228
1920	4668.2	224.8	307.3	268.8
1930	4181.1	480.3	491.4	579
<i>Growth x</i>	<i>7.6</i>	<i>5.2</i>	<i>5.3</i>	<i>18.8<sup>231</sup></i>
<i>Share %</i>	<i>73</i>	<i>8.4</i>	<i>8.5</i>	<i>10.1</i>

**Figure 6.1 : Total Deposits NL Banks (1900-1930)**  
(millions of guilder)



**Table 6.5: Ranking of Dutch varieties of financial institutions per strategy for the period 1900-1930**  
(1=highest, 5=lowest)

	Commercial banks	General Savings banks	State Postal Savings bank	Co-operative banks	Mortgage banks
Strategy a	2	3	4	1	5
Strategy b	1	4	3	2	5
Strategy c	2	2	4	1	5
Strategy d	1	4	2	3	5
Strategy e	1	2	4	2	5
Strategy f	1	4	3	2	5

**Strategy a Help core customers fulfil their social class aspirations.**

*i) Commercial joint-stock banks*

For reasons of lack of dynamism, and the pre-existence of a very popular prolongation market, commercial banks were very average performers at this strategy. Although heavily involved in all types of stock exchange related activities – which explains their vast total assets – Dutch commercial banks were no enthusiastic vehicle of social and economic mobility. They seemed interested only in the advancement of established and privileged minorities, which hardly helped their democratic credentials. In comparison with their Continental European and English counterparts, Dutch commercial banks' track record in the pre-WWI market of deposit-taking was particularly unimpressive (Jonker, 1997: 101-102). The latter's passivity before WWI was caused by at least two factors.<sup>232</sup> First, Dutch commercial banks focused on the old, familiar sectors of international commerce and shipping – commercial credit.<sup>233</sup> Disregarding the Twentsche Bank's modest industrial efforts and some failed foreign initiatives, commercial banks mainly targeted members of the Regent and rentier ranks in the Holland provinces and in the Dutch colonies. To service these customers, commercial banks relied on pre-industrial sources and techniques of capital accumulation. To avoid the wrath of their closed Regent clientele, commercial banks avoided being associated with the lower ranks, i.e. farmers, the working classes and even the emerging middle classes.<sup>234</sup> A second reason for the relative passivity of commercial banks with regards to the deposit market was the existence of the prolongation system. In effect on the Dutch stock market since the seventeenth century, and reinvigorated by the Dutch Bank in 1860, the prolongation system had the great advantage of bolstering the financial centre by providing uniform, flexible and secure investment options. On the other hand, the prolongation system denied commercial banking a sound deposit rate. Indeed, the short-term interest rate on the

Amsterdam exchange remained at or above the yield on government bonds until nearly 1920, effectively precluding profitable deposit taking by banks (Jonker, 1996: 191).<sup>235</sup> The prolongation system was supported by a network of agents that extended into the outer provinces. As a result, commercial deposit banking developed late in the Holland provinces, while remaining conspicuously weak in the outer provinces<sup>236</sup> (cf. t'Hart et al., 1997: 198). The temporary closure of the prolongation market during WWI, and the soaring demand for industrial capital in the following years finally provided commercial banks with the opportunity to develop their deposit business. Nevertheless, even during this period, the core clientele of commercial banks fundamentally remained the same as the one of its merchant bank predecessors: a “Regent” clientele of Amsterdam financiers and colonial customers.<sup>237</sup>

ii) *General savings banks*

Originally, general savings banks were very original vehicles of social and economic mobility, although limited to the lower social classes – which marginalized their role against the prolongation market. Led by Social Liberal trustees, the banks also were the first to use the concept of saving as a “civilization” vehicle for outsiders.<sup>238</sup> General Savings Banks emerged well before the arrival of the State Postal Savings Bank and co-operative banks. Up to the 1880s, they only had to compete with the old lombard banks<sup>239</sup> – banks that since the seventeenth century had facilitated loans to the working classes. To distinguish themselves from the latter banks, savings bank directors had successfully popularised the following motto: “the lombard keeps making you poorer: the savings bank keeps making you richer”.<sup>240</sup> Savings banks offered each one of its customers an opportunity to become an “active and respected member of society” by helping them to, on the one hand, avoid prodigality, and, on the other hand, raise enough capital to start “one or another trade.”<sup>241</sup>

Because active democratisation was such a priority for savings banks, they soon became a haven for the lower middle class instead of the original target group of the working classes. Specifically, savings banks became popular in urban regions amongst those with a modest, but regular income, such as domestic servants, craftsmen and shopkeepers (Dankers et al., 2001: 34-35). In comparison with the State Postal Savings Bank, this translated in a smaller number of customer accounts, but a much higher “average deposit” amount (see Table 6.6).

**Table 6.6: Savings, number of accounts and average saldo at selected Dutch banks**  
(period 1881-1930<sup>242</sup>)

Year	Co-operative banks			State Postal Savings Bank			General savings banks		
	Total savings X 1000	Acc. X 1000	Average Deposits x 1000	Total savings X 1000	Acc. X 1000	Average Deposit x 1000	Total savings X 1000	Acc. X 1000	Average Deposit x 1000
<b>1881</b>	-	-	-	859	23	37.62	39,444	235	168.17
<b>1895</b>	-	-	-	44,185	500	88.38	73,114	346	211.24
<b>1905</b>	8,700	25	351.7	129,930	1,184	109.71	92,194	399	230.89
<b>1910</b>	30,016	71	422.6	164,278	1,510	108.79	110,879	452	245.44
<b>1920</b>	200,000	266	893.1	272,954	1,908	143.03	216,801	620	349.79
<b>1930</b>	484,568	501	968	375,405	2,144	175.09	429,830	1046	411.09

iii) *State Postal Savings Bank*

The State Postal Savings Bank stepped in where the general savings banks had left unfinished business: the niche of the large minority of unskilled workers with an irregular, small income. The choice for this target group with very limited elite potential meant that the State Postal Savings Bank deliberately limited its pretensions of active democratisation. To fend off more ambitious savers, the Bank decided to offer a relatively small interest, between 2.6 and 3 percent – compared to an interest between 3 and 4 per cent for general savings banks. On the other hand, it set a maximum saldo of 800 guilder – compared to a maximum of 1000 guilder for general savings banks (Bulder, 1998: 696). These low rates explain why, in comparison with commercial, co-operative and savings banks, the State Postal Savings Bank experienced modest growth during periods of relative wealth, such as the 1920s. Despite its clear choice for the working classes, the Bank hardly could become a prime vehicle of active democratisation. Not only was the Bank's target customer group economically limited. One could hardly expect working class customers to become leading members of civil society following their use of the Bank's services.

iv) *Co-operative banks*

Agricultural co-operative banks arguably provided the main innovation in not only service methods and customer orientation (Klein, 1973: 144), but also civic rationale in pre-WWI Dutch banking.<sup>243</sup> Co-operative banks provided a core minority of members with credit facilities, lesser members with only savings facilities. The core members typically were farmers with an international business orientation, organised in successful producer and marketing cooperatives. Being a core member not only depended on economic criteria. In line with their allegiance to forces of pillarisation, especially the leaders of the catholic central bank were very explicit in their linking of economic and civic logics: they laid down in the Bank's statutory conditions that anyone wishing to become a member and use the co-operatives' economic services should recognise the principles of religion, family and right of property in a Christian sense.

In fact, the catholic leaders were borderline isolationist.<sup>244</sup> They held on to the rallying cries "in isolation lies our strength", and "he who is not a farmer and well known, we distrust, and how many times justifiably" (De Vries, 1973: 14), with great success.<sup>245</sup> From a republican perspective, Catholic Co-operative leaders drew mostly on old guild traditions. In particular, leaders such as Van den Elsen furthered Middle Age « organic » traditions of independence: their preference was for small entities run in a personalistic way.

The provinces accommodated by the other, protestant-neutral central bank were less ideologically homogeneous; to accommodate the religious and civic differences between local banks in Friesland, Groningen and Drente, the other central bank, the Co-operative Central Raiffeisen Bank, had to position itself as a more neutral enterprise (Van Campen et al., 1940: 58).<sup>246</sup> Still, Reformed Protestants and secularized, "great-Christian" Protestants constituted most of the members of this central bank. Less isolationist of character, leaders of this central bank reinvented a very resonant republican rallying cry: the song used by the Sea-Beggar rebels during the Dutch Revolt against the Spanish duke.<sup>247</sup> The more isolationist, and selective character of the catholic central bank translated into a lesser international orientation, a smaller amount of credits granted, and a higher ratio of "own resources to total resources" than in the protestant-neutral central bank.<sup>248</sup> Overall, this translated in a smaller number of customer accounts than at the general Savings Banks or the State Postal Office Savings Bank, but also a much higher "average deposit" amount

(see Table 6.6).<sup>249</sup> Remarkably, though co-operative banks offered much cheaper credit rates than other banks, their cost/benefit ratio from 1908 onwards was considerably lower than the one of commercial banks (a co-operative ratio of 0,5 as against a commercial ratio of 1,9) (Sluyterman et al., 1998: 381).<sup>250</sup>

v) Mortgage banks

Mortgage banks were marginal vehicles of social and economic mobility, in spite of their theoretical potential. Up to the turn of the twentieth century, these specialist banks piggybacked on urbanisation trends in the Holland provinces to exponentially increase their number of potential customers – as evidenced in the growing balance total and amount of mortgages supplied. Potential customers mostly were those members of the emerging middle classes who could not rely on family links in the new urban areas. Three factors inhibited further growth of mortgage banks. First, the pillarisation movement gained strength, especially in the outer provinces. This thwarted the attempts of the mortgage banks' invariably Liberal leaders to act as a country-wide democratisation vehicle for the group of sizeable property owners. The important property owners in the agricultural population could not be reached at all. Mortgage banks' working area remained confined to a few Holland cities. Second, following new housing legislation in 1901, which prescribed much more stringent conditions for the building of houses, the speculation boom in the urban housing market turned into a bust (Klein and Vleesenbeek, 1981: 14-15; Van der Woud, 1947). Third, in 1905, large-scale fraud was discovered in two mortgage banks. This seriously dented investor confidence. Other banks venturing in the mortgage market – both commercial and co-operative – would take advantage of this downturn. The situation got worse during WWI when the costs of construction more than tripled.

**Strategy b Cater to customers of different social classes**

i) Commercial banks

Compared to their English and German counterparts, Dutch joint-stock banks were no outstanding vehicles of social class consensus. While after WWI commercial banks opened current accounts for new industrial companies on the basis of the emission of shares or obligations,<sup>251</sup> by the 1930s the Dutch commercial banking system still served a remarkably small circle of customers. Most regular payments such as wages, rents, or insurance premiums were still effected in cash. To counteract this tendency, commercial banks acquired provincial banks to increase their presence nation-wide. Still, bank deposits barely exceeded 50% of M1, even showing a tendency to decline, whereas in England this figure had already soared above the 60% mark and beyond during the 1920s at the latest (Capie and Webber, 1985). All in all, this was not the fault of Commercial banks; most entrepreneurial activity in the Netherlands for a long time came from the same, long established industrial, commercial or aristocratic circles (Klein, 1966: 16; Schijf, 1993: 124).<sup>252</sup> On the other hand, Dutch commercial banks after WWI were seen as rather important vehicles of pacification, living together apart and proportionality between the colonial and the domestic monetary system.<sup>253</sup> In particular, commercial banks, in collaboration with the Dutch Bank, contributed to the consolidation of a network of interlocking directorates in the Dutch Indies that went all the way back to the Netherlands.<sup>254</sup>

ii) General savings banks

Despite the fact that savings banks were led by a variety of “respectable” community members – pastors, lawyers, small businessmen, or civil servants – capable of reaching a very broad range of groups, they were not very successful vehicles of consensual democratisation, in casu the tradition of pacification. That is, if we compare them not only with the State Postal Savings bank and co-operative banks, but also with their international counterparts. The Economist in 1909 described a few reasons for Dutch savings banks’ comparative lack of success: “Desire to be solid...the satisfaction to be working for free for a public purpose...the tendency to keep the costs of savings banks as low as possible, to the advantage of the [few] depositors and to the reinforcement of solidity; a tad of ‘Regency’...these are the causes for the slow development of Dutch savings banks as compared to [their counterparts in] foreign countries” (cited in Buning, 1957: 9-10). In particular, many savings banks treated their customers in an overly patronising way, most notably through their imposition of unrealistic “limited withdrawability” conditions.<sup>255</sup> These conditions posed an important barrier to entry for working people, who mostly enjoyed irregular wages, and for whom immediate withdrawability was a *sine qua non*.<sup>256</sup> A further problem for the savings bank movement was that, while centrally the movement was led by liberal leaders firmly opposed to any notion of a pillarised democracy, locally savings banks were not only led by liberals, but also by reformed protestant and catholic leaders. This contradiction between central ideal – of a social liberal democracy – and local reality – of a pillarised democracy – became a serious liability after 1890.

iii) State Postal Savings Bank

The State Postal Savings Bank was a very successful vehicle of consensual democratisation. Its advent in 1881 meant that working people would be able to enjoy greater anonymity, and less patronising withdrawability conditions on their deposit transactions.<sup>257</sup> In addition, the State Postal Savings bank could draw upon an already existent national network of post offices as its outlets. As a result, by 1891, some 13 percent of the Dutch population already deposited savings at the State Postal Savings Bank. The remarkable difference in average deposited amount at the State Postal Savings Bank and the general savings banks, respectively 75 and 195 guilder in 1890, also indicates that the former organisation was much more effective in reaching the population of working class savers. The State Postal Savings Bank would retain this competitive edge during most of the first half of the twentieth century.

iv) Co-operative banks

Be it in a more pillarised fashion, Co-operative banks were also champions of consensual, passive democratisation in the Netherlands. Most notably, Protestant and Catholic co-operative banks had reinvented the traditions of “Orangist democracy” and “living together apart” (see p. 90-91).. As early as the 1890s, the two central co-operative banks had agreed to the harmonious partitioning of the country in protestant-neutral and catholic working areas. Organised in hierarchical pillars, Co-operative banks mobilised as many farmers as possible for the ideal of social class consensus through their combination of practices of saving for the lower ranks, and credit for the somewhat better-off.<sup>258</sup> Testifying to the Co-operative leadership’s primary goal of passive democratisation, up to the 1920s co-operative banks were closer to being savings banks than credit banks – though the latter function was proclaimed to be their *raison d’être*.<sup>259</sup> Piggybacking on the initial efforts of Savings banks, but with more resonant local networks and a consistently

higher interest rate (3 % as compared to 2.5 % at the competition), co-operative banks succeeded in building an important savings capital, much to the detriment of non-catholic Savings banks. In addition, more savings were coming in than credits going out the local banks. This was even more the case for catholic co-operative banks than for the protestant-neutral co-operative banks. In the southern, catholic provinces, borrowing money still had a very negative connotation. As a result, less than 50 percent of the savings deposited at the southern local banks were lent out. At local banks affiliated to the protestant-neutral central bank this percentage fluctuated between 60 and 80 percent (Weststrate, 1948: 354-361).<sup>260</sup> Only co-operative banks were able to match the extensiveness and inclusiveness of the State Postal Savings Bank's national branch network. The substantial growth experienced by a large part of the dairy and marketing Co-operatives<sup>261</sup>, together with the depreciation of the guilder accounted for the increase of savings funds flowing in the co-operative banks. Co-operative banks guaranteed a safe custody, a respectable interest rate and a short term withdraw ability. Mainly because of the selling off of mixed farms, savings deposited at the co-operative banks during WWI grew much faster than at the State Postal Savings Bank or the general-purpose savings banks.<sup>262</sup>

v) Mortgage banks

Mortgage banks' ability to function as a vehicle of consensual democratisation was limited by several factors. As mentioned above, given the dominance of forces of circle confederalism in the outer provinces, the area of operation of mortgage banks was effectively confined to the Holland cities of Amsterdam, Rotterdam and 's Gravenhage – and to a minor extent Utrecht. This not only meant that mortgage banks were conspicuously absent in the market of agricultural mortgages (Glasz, 1935: 4). It also meant that mortgage banks did not play any role in reviving the living together apart tradition in line with the main lines of contention in the Netherlands: religious disputes that played out in the outer provinces and in the divide between countryside and city life.

**Strategy c Make State policy on economic citizenship by “fait accompli”**

i) Commercial banks

Kuitenbrouwer (1985, 1994) introduced the notion of ‘Regent capitalists’ to encompass how a small minority of financiers and their colonial affiliates/customers benefited disproportionately from Dutch government policy. Commercial banks were the main intermediaries of this elitist form of rentier capitalism.

Convinced that the distinctive strength of the Dutch state always had been its ability to act as a go-between in geopolitical conflicts, the Dutch government at the outbreak of WWI decided to revert to a policy of neutrality. This policy boosted the international position of the Amsterdam financial market at the detriment of for instance the London Stock Exchange. Commercial banks were quick to capitalise on this. The acceptance business of the large Dutch commercial banks grew extremely rapidly from 1917 onwards, a development encouraged by the Dutch Bank. The expansion of Amsterdam as a centre for international credit services continued in the 1920s. German companies in particular set up offices in Amsterdam to take advantage of the low interest rates on the Amsterdam money markets (Van Zanden, 1997: 142; cf. De Vries, 1989: 213-220). The end result of all this was that a privileged minority of international financiers and customers – commercial banks' main clientele – benefited disproportionately from government policy.<sup>263</sup> There was another clear minority aspect to all this. In order to retain the confidence of foreign investors, the Dutch government pursued a policy of stable

currency rates and deflationary monetary management. As a result, the Dutch guilder was overvalued for long periods of time, sometimes to the detriment of provincial industry (cfr. Maddison, 1991: 35).

ii) General savings banks

From the 1860s up to the beginning of the twentieth century, the social liberals imprinted a lasting legacy on governmental policy: firms that combined a non-profit character and the purpose to turn outsiders into good economic citizens, were to receive substantial fiscal privileges and organisational freedoms. As a result, in contrast with for instance commercial banks, savings banks did not have to pay any corporation tax. In addition, in contradistinction with for instance their English counterparts, Dutch savings banks were left entirely free in their choice of investments. This allowed savings banks to invest their funds in the prolongation market. From WWI onwards, however, savings banks showed a conspicuous lack of entrepreneurship, as moral and provincial matters dominated economic growth opportunities.

Generally speaking, savings banks were not able to lobby for or transform economic policies in the first decades of the twentieth century in their specific favour – and not the advantage of the State Postal Savings Bank and co-operative banks also. There were two main reasons for this. First, the central leadership was of a clear social liberal signature. Through the vehicle of savings banks, social liberal leaders had tried to mobilise a coalition of reform-minded citizens and the worker movement against the “old abuses” of the Dutch oligarchy. Yet, contrary to England where antagonism for the aristocracy found a fertile breeding ground and liberal values spread fast beyond bourgeois quarters, the liberal culture of good citizenry remained rather small in the Netherlands. This would prove to be a crucial weakness in the history of Dutch savings banks. Second, this weak position in civil society soon translated into a political weakness: the social liberal background of the savings banks’ central leadership was soon perceived as self-marginalising within government circles, increasingly populated as these were by confessional parties.

iii) State Postal Savings Bank

The State Postal Savings Bank provided its working class customers with a special political advantage: the State’s guarantee that the Bank would maintain easy access, favourable and stable rates for the working classes. To guarantee this, the government representatives made sure that, on the one hand, the Bank would remain a not-for-profit organisation, and, on the other hand, wealthier savers would find the Bank’s economic proposition below par for their own aspirations. Clearly, the reason why the Dutch government provided such a guarantee, is that it saw the State Postal Savings Bank as a unique vehicle to turn the working classes into good economic citizens without excessive State intervention.

While its not-for-profit character and clear choice for the outsider group of the working classes guaranteed the State Postal Savings Bank plenty of governmental support, it nevertheless hardly could become a prime vehicle of active democratisation. Not only was the Bank’s target customer group limited in terms of political leadership. The government hardly expected working class customers to become leading members of civil society following their use of the Bank’s services. As proof of this lack of confidence, the government imposed certain limitations on the investment options of the State Postal Savings Bank. For instance, the State Postal Savings Bank was allowed to lend money to mortgage banks, but it was not allowed to issue mortgages from incoming savings. In

practice, the law of 1880 limited the Bank's investment options to the National Debt and some domestic obligations (Dankers et al, 2001: 117-118).

iv) Co-operative banks

Co-operative banks were up-and-coming minority vehicles of economic citizenship – and arguably those best able to anticipate policy changes in the decades to come. Given the historical importance of agriculture for the wealth and autonomy of the Dutch nation-state, the State had given agricultural co-operative banks several fiscal benefits in return for a promise that no further intervention would be needed. For instance, the different laws that came into effect from 1893 with regards to co-operative banks maintained that dividend payments by co-operative banks to members would remain non-taxable.<sup>264</sup> This allowed both banks to offer comparatively low debt and high credit interest rates (between 4.1 in 1921 and 2.5 in 1939) to their members (Bulder, 1998: 697).<sup>265</sup> Despite these advantages, especially Catholic co-operative banks were very much outsiders in the system of special interests organised around the Dutch Bank and the Ministry of Finance. More than the protestant-neutral central bank, the catholic central bank emphasised its allegiance to the pillarisation movement: it clearly focused on linking “outsider” catholic and political concerns. Drawing on the rallying cries “in isolation lies our strength”, and “he who is not a farmer and well known, we distrust, and how many times justifiably”, Catholic co-operative leaders were able to convince a maximum of Catholic participants to become members of their local banks and Union. The protestant-neutral central bank presented itself as more neutral, which diluted its influence on the protestant community to some extent.<sup>266</sup>

After WWI, the agricultural credit system stood in a similar, but more successful relation to agricultural development than the general banking system to industrial development. The major difference between Co-operative and Commercial banks was that, where the first only prudently and gradually granted more credit to their agricultural members, credit services provided by the latter soared uncontrollably after WWI. Agricultural banks, for their part, did make important efforts to grant credits to agricultural companies, though there still existed a stigma on high credit lines. They offered cheap short-term credits to other agricultural co-operatives – be they dairy factories, auctions, marketing-, service-, or supply-Co-operatives. Yet, they pursued a very prudent loan policy, creditors having to meet stringent financial requirements. As a result, co-operative banks endured the crises of the 1920's without any major setbacks, allowing them to remain largely independent of the Dutch Bank. contrast with Commercial banks, at the end of the 1920s one of the agricultural banks adopted the method of attracting long-term deposits and secured bonds to balance long-term credits, and counter credit practice threats to their liquidity position.

v) Mortgage banks

Instead of being able to pioneer future government policy, mortgage banks felt they were unduly restricted by it. For one, given the country's dependence on the international capital market, the Dutch Bank and the Ministry of Finance were opposed to the establishment of a separate capital regime for home-ownership (Helderman, 2007). *This precluded mortgage banks benefiting from unintentional fiscal advantages in a way the English building societies could.* In addition, albeit mortgage banks were private initiatives and officially free from government control – a situation quite different from for instance Germany, indirectly some measure of public control was performed on them. For instance, statutorily the State Postal Savings Bank not only had to invest part of its savings

in mortgage bonds, but also had to supervise the instances from which it bought mortgage bonds, in casu the private mortgage banks.

More importantly, mortgage banks suffered from a key Dutch housing policy antecedent in 1901 which – unintentionally – would turn out not be in their favour. On initiative of the Liberal-dominated cabinet, and supported by confessional leaders who reinforced the widespread suspicion that direct state provision would be associated with socialist totalitarianism (Doling, 1997: 16), the Dutch government in 1901 chose for a housing policy based on a maximum of decentralized self-organisation – including local municipalities – and the least possible State intervention. At first sight, this boded well for mortgage banks who could rely on the weight of Liberal politicians in municipal governments. Yet, liberal-dominated municipalities were becoming a rarity outside of the major Holland cities. In fact, in view of the emerging strength of the system of denominational pillars in the subsequent decades, mortgage banks on the ground were not strategically positioned to take up the gauntlet of up and coming local housing associations. Organised along pillarised lines, housing cooperatives did not encourage home ownership per se, but endeavoured to keep rents as low and housing quality as high as possible. In essence, housing associations were vehicles of the social rental sector, not the private home ownership sector to which mortgage banks belonged. While only used as “a stopgap” strategy before WWII” (Van Weesep and Van Kempen, 1993 : 185), the comparative effectiveness of housing associations’ efforts a vis the home ownership sector during the first half of the twentieth century, ultimately would convince the government to make the social rental sector the avowed, primary focus of its efforts after WWII.

#### **Strategy d Translate State policy on economic citizenship**

##### *i) Commercial banks*

Dutch commercial banks were no pioneering vehicles of consensual economic citizenship either, except for colonial issues. Ever since the Republic’s Golden Age, the Dutch government has promoted policies to protect its colonial interests. At the turn of the twentieth century, the *Nederlandsche Handel-Maatschappij* argued the country was in danger of being relegated to a position similar to Denmark if financial investment in the colonial empire were neglected. Other commercial banks followed suit and put their money where their mouth was. The Big Four commercial banks took advantage of the onset of WWI – in which the country took a neutral position – to invest in colonial endeavours.<sup>267</sup> In collaboration with the Dutch Bank, especially the *Amsterdamsche Bank*, but also the *Rotterdamsche Bank* and the *Twentsche Bank* invested heavily in the Dutch Indies – not eschewing the opportunity to establish a local branch network.<sup>268</sup> Arguably, the commercial and private banking elites of Amsterdam and Rotterdam were one of the driving forces behind the colonial expansion (Taselaar, 1998: 22). And, in many ways, the Dutch government saw commercial banks as vehicles of aligning colonial and domestic monetary policies.

Commercial banks were less successful as to domestic investment in industrialisation dynamics. In face of growing consternation in popular opinion, the Commercial banking sector from the 1910s declared itself prepared to follow the example of their German counterparts and take the lead in the industrialisation movement. In order to broaden the financial basis for industrial investment, Commercial banks issued new shares, took over other banks and established branch networks. Yet, the modest levels of industrialisation in the Netherlands, meant that it was the market of foreign capital

investment that boomed between 1915 and 1920. Following the inflationary boom of the period of 1914-1920, the banking system near collapsed in the period 1922-1924. As a result, Commercial banks' ability and incentives to act as a consensual vehicle of industrial citizenship diminished even more during the financial crisis of the 1920s. Fortunately, the Dutch Bank set up large bailout operations; while inciting Commercial banks to show more restraint in their loan and credit business (Van Seenus, 1945: 114). From then onwards, commercial banks' industry relations would become even less ambitious. They rapidly withdrew from industrial finance, and returned to the time-honoured tradition of "sound banking : banking geared towards international trading business with a regular turnover and convenient collateral. Industrialists' vociferous complaints about the lack of credit facilities notwithstanding, bankers who argued that it was too risky for them to engage in long-term credits and monitor firms without receiving a suitable collateral. In addition, there was the manifest lack of interest among investors for industrial shares. Bankers reacted sceptically to suggestions to recruit engineers for assessing the technical and organisational complexities of companies. Nor did the bankers push for a widening of the legal definition of collateral, as German bankers did. The Dutch Bank had a large role to play in all this. The fact that the Dutch Bank encouraged a growing number of foreign governments and companies to come to the Dutch capital market in the 1920s, meant that banks could profitably limit their activities to low-risk stock market flotations and the trusted commercial credit.

ii) General savings banks

As organisations that combined a non-profit character with the purpose to make good economic citizens of former outsider groups, savings banks were valued by the State as a potential instrument of consensual democratisation. But then again, because active democratisation was such a priority for savings banks, their willingness to engage in more passive, consensual types of democratisation was limited, certainly compared to their State Postal Savings Bank counterpart.

iii) State Postal Savings Bank

The State Postal Savings Bank was a champion of consensual economic citizenship. One secret of this success was that, in contrast with general savings Banks, the State Postal Savings Bank relegated its social liberal beginnings to the background.<sup>269</sup> Faced with the reality of changing government coalitions, the State Postal Savings Bank consistently held on to a policy of "cheapness" and convenience which all political parties wholeheartedly subscribed to. One of the reasons why the State Postal Savings Bank could offer advantageous interest rates, and a very low savings threshold is that it could rely on a pre-existing national network of Post Office branches. The Dutch government had ordered the establishment of this branch network in the preceding decades, with the purpose of increasing nation-wide communication. As a result, the State Postal Savings Bank became the most successful promoter of savings habits amongst the working classes, certainly in terms of the number of savings accounts: this number increased from 23,000 to almost 2.2 million between 1881 and 1931.

iv) Co-operative banks

Co-operative banks were excellent vehicles of consensual economic citizenship, in spite of some isolationist Catholic tendencies. Generally speaking, the protestant-neutral co-operative banks functioned more as general-purpose vehicles of living-together-apart than their catholic counterparts, who acted more as vehicles of

Orangist democracy. The reinvention of either tradition in agricultural villages greatly facilitated a smooth transition to a system of universal suffrage two decades later.

As mentioned before, Protestant leadership was relatively neutral and more decentralised than Catholic leadership which was very hierarchical, and almost isolationist: the latter endeavoured to create unity in their pillar by reminding themselves of the historical stigmas they had to endure. To avoid interference of non-farmers, the Catholic central bank did not allow local merchants to become members, and make use of their credit facilities. The protestant-neutral Central, on the other hand, was much more focused on rapid growth, and therefore substantially relaxed the condition of being a farmer to obtain membership. As a result, contrary to the protestant-neutral central bank, the catholic central bank was not allowed to use the discount facilities of the Dutch Bank, supposedly because it did not stick to the standards of accountability promoted by the Dutch Bank and the Regent circles.<sup>270</sup> In fact, the leaderships of the Dutch Bank and the Ministry of Finance were of a great-christian signature and strongly anti-papist.

Thanks to its less isolationist stance, the protestant-neutral central bank from 1908 until 1925 was allowed to take recourse to the discount facilities of the Dutch Bank to keep its liquidity problems at bay - , in contrast with its Catholic counterparts. During this period, the protestant-neutral central bank, more than the catholic Central went through a lot of balance fluctuations (deposits of the local banks at the Central minus the advances of the Central to the local banks). After 1922, however, the protestant-neutral central bank managed to stand on its own feet (Weststrate and Visser, 1948: 49). In 1925, the catholic and protestant-neutral Centrals again were treated on a par by the Dutch Bank, which increasingly took offence at the so-called unprofessional and unethical practices of some local co-operatives that “tend to consider their business as a family party” and provide their members with “too inexpensive credits” (Weststrate and Visser, 1948: 198).

v) Mortgage banks

Contrary to its British counterpart, the Dutch government did not see a specialised mortgage banking sector and capital-regime for home ownership mortgages and house ownership as the best vehicle of consensual democratisation. Given the country's dependence on the international capital market, the Dutch Bank and the Ministry of Finance were and remained opposed to the establishment of a separate capital regime for home-ownership (Helderman, 2007). Instead, it saw the public enforcement of minimum housing quality standards, combined with the maintenance of low rents – in proportion to wages – as the way forward. By the end of the 1920s, the consensus amongst international observers was that this policy had worked very well, at a cost “relatively lower than in most of the other countries” (Bauer, 1935: 282).

### **Strategy e Become a champion of national character**

From the late 1840s onwards, the influence of “national globalisation” dynamics mounted in the Netherlands, both as a result of the threat of foreign revolutions, and the translation of the Pax Britannica into transnational monetary standards – the gold standard – and new agricultural markets. From the 1870s, the emerging nation-states Germany and the United States became very influential in these developments. Following proposition e (chapter 2, p. 31), in times of national “globalisation”, city-state traditions become more prominent in the public sphere and the negotiation of democratic settlements; for the favourable repositioning of nation-states very much hinges on their reinvention. The Netherlands was no exception to that rule in the period 1840-1930. In

spite of the preponderance of city-state traditions – linking London, New York, Rotterdam, Amsterdam and the Dutch colonies’ capitals, a strong protectionist countermovement was emerging as early as the 1870s. While rapidly gaining strength, this movement of “consociationalism” or “pillarisation” would not become the clear majority movement before the 1930s. As such, up to the end of the 1920s, the tradition of City monetarism was associated more with the public interest and a national identity than the traditions of Orangist democracy or proportionality, albeit not by as large a margin as in England.

*i) Commercial banks*

During the period 1870 to 1930, commercial banks successfully translated their aspirations for a financial, City-centered nation, into a democratisation agenda accepted by a majority in the outer provinces. Commercial banks achieved this by positioning themselves as central to the renewal of the true Dutch character, the one that laid the basis of the Dutch Golden Age: utilitarian nonconformism. In particular, commercial banks pursued a three-pronged strategy, aimed at both preserving local independence and integrating the variety of Dutch financial stakes in one national voice. First, commercial banks started acquiring private banks in the outer provinces from the beginning of the twentieth century, as a way of integrating these latter institutions’ stake in an Amsterdam-centred financial system. Second, during WWI commercial banks decided to greatly increase their presence in colonial endeavours. In Dutch popular opinion, the colonial empire of the Netherlands was not only considered essential to securing imports of cheap goods in the country. It was also portrayed as essential to maintaining the monetary and, by proxy, geopolitical weight of the Netherlands. Commercial banks capitalised on this, as demonstrated by the following rallying cry of the Rotterdam Bank: “‘trade follows the flag’ is the axiom that should be proclaimed...[and] ‘trade follows the banks’ should receive civic rights as a second maxim!” (Tienhoven, 1917: 31-32). Finally, and crucially, by the turn of the twentieth century most commercial banks had adopted the legal form of a public limited company, while remaining intimately linked to the private world of merchant bankers and central bankers – Dutch and foreign.

Soon, this public-private network of interlocking directorates extended to almost all public limited companies in other Dutch economic sectors. Indeed, after WWI bank representatives, mostly based in Amsterdam, held seats as commissioners on the great majority of public limited companies (Schijf, 1993: 39).<sup>271</sup> Remarkably, bankers’ commissioner jobs did not entail so much financial supervision as the bringing in of a certain civic lifestyle or competence. One civic barrier of entry to the network of interlocking directorates was involvement in the “Heeren” clubs organised around the private institutions of the Dutch Bank and the merchant banks.<sup>272</sup> The top-ranked members of these clubs even maintained close relations with British and North-American central bankers. On the other hand, religion – which by then had been relegated *de jure* to the private sphere – constituted another important civic requirement. Thus, at the turn of the twentieth century, most of the people occupying interlocking directorates in public limited companies were members of the Dutch Reformed Church (about 40 percent), Baptists (some 10 percent), or Evangelical Lutherans (some 7 percent) or Jews (3 percent)<sup>273</sup>. Only about one fourth of the directors was not affiliated to any religious organisation (cf. Schijf, 1993: 39; 79-80). Given the great-christian, financial and Amsterdam-centred nature of this network of interlocking directorates, some authors have typified it as a new manifestation of “City monetarism” or “Regent capitalism” which emerged from the late nineteenth century onwards (Kuitenbrouwer, 1985, 1994). Crucially,

the public-private network created by the commercial banking sector – a network of public limited companies organised around the private codes of great-christian beliefs and “Heeren” clubs – prevailed over emerging forces of pillarisation up to the 1930s.

ii) General savings banks

Savings banks did champion a distinctive imagery of Dutch national character: the image of a nation whose main successes – the Republic’s “Golden Age” – had been achieved through frugality and steadfastness. While this imagery remained quite strong for much of the nineteenth and twentieth centuries, saving banks soon ceased to be its main champions; the main reason for this relative decline was General Savings Banks’ poor performance as to other core national habits: be it “City monetarism”, “circle confederalism” or “pacification”. With regards to the tradition of City monetarism, savings banks initially invested a fair amount of their reserves in international prolongations and the Amsterdam-centred national debt brokers. This percentage, however, declined fast from WWI onwards – the heydays of City monetarism, testifying to the increasing introversion of savings banks.<sup>274</sup> Second, the emergence of the pillarisation movement and its core principle of circle confederalism hampered savings banks in their bid to become the provincial counterpart of City monetarism. Not only were most customers of General savings banks to be found in the Holland cities, the spirit of the Savings banks very much was one of great-christianism and Holland Regency. Third, following the 1917 Pacification agreement between catholics, protestants and liberals, the Dutch government introduced social security measures and promoted the rise of life insurances and collective retirement plans, all according to the principle of circle confederalism. This did not bode well either for savings banks. As testified by the minister of finance Treub in 1917 these new forms of «collective saving» would «if not make superfluous, yet make individual saving less necessary».<sup>275</sup>

iii) State Postal Savings Bank

The governance model of the State Postal Savings Bank was based on a precursor of the 1917 principle of national Pacification. Not only was the Bank led by a most inclusive coalition of political party representatives; more than other banks, the legally imposed aim of the State Postal Savings Bank was to downplay civic differences and be as inclusive as possible of people of different provinces and denominations. All in all this meant that, while the directors of the State Postal Savings Bank were well connected, the law did not allow them to take the lead in initiatives of democratisation focused on minorities with elite potential. Even more since Some of the minorities with most elite potential before the 1930s were of a cosmopolitan stamp, in contrast with the domestic mission of the Bank – tackling the Dutch “Social Question”. Rather, the law implicitly encouraged the State Postal Savings Bank to take the lead in targeting those groups that had been neglected by private initiatives, but whose inclusion in financial affairs clearly was in the interest of public order.

iv) Co-operative banks

Co-operative banks were very adept at framing agriculture as the oldest and most stable element of a sound national character (cfr. Van Balen, 1938: V). Building on this legacy, co-operative bank leaders demonstrated considerable skill at inducing a type of public-private collaboration in the agricultural sector which could be used as a prototype for public-private settlements in other sectors.<sup>276</sup> The ability of co-operative banks to contribute to a public-private settlement in the Kingdom of the Netherlands was most clearly expressed by the way they managed to combine different systems of education to

their advantage. On the one hand, co-operative banks piggybacked on the system of public agricultural education set up by the Liberal governments of the 1860s. This system provided Dutch farmers and co-operatives with education in the most advanced agricultural working methods and significantly boosted their capacity to compete on world markets. On the other hand, co-operative banks supported the private educational reforms obtained by Reformed Protestants and Catholics at the beginning of the twentieth century. As a result, they were able to hire personnel and cater to members who had already been socialised into the lifestyle most fitting to either the Protestant or Catholic circle.

v) Mortgage banks

Set up by Social Liberals in Amsterdam in the 1860s, Dutch mortgage banks could not build on a long-lived, liquid mortgage market, in the same way as their English counterparts, the building societies, could. On the contrary, given the preponderance of the link between provincial land and “real wealth” in images of Dutch national character there lay an outright stigma on the practice of mortgaging. For instance, a Dutch commission of agriculture in the 1850s claimed that “when a farmer is compelled to mortgage his properties, he usually wishes to keep this as quiet as possible, to be able to maintain his credibility.<sup>277</sup> The multiplication of opportunities to mortgage real property we cannot call differently than the undermining of the wealth of the country, which for each landowner consists of the untaxed property of his goods” (Buijs, 1861: 93-94). This legacy severely restricted democratisation opportunities for mortgage banks. Things went from bad to worse when at the beginning of the twentieth century, governmental housing policy became imbued with elements of “circle confederalism” as the leading principle of public-private collaboration. Evidently, mortgage banks suffered from a national housing policy based less on “universal” self-help principles than on a maximum of self-organisation by the different Dutch circles (Van Weesep and Van Kempen, 1993: 185).<sup>278</sup>  
<sup>279</sup>

Mortgage banks’ opportunities became even more restricted when two mortgage banks were accused of large scale fraud at the beginning of the twentieth century. In comparison with England, the extent to which mortgaging became stigmatized as an anti-national business was astounding. On the defensive, Dutch mortgage banks agreed to hold on to a principle of “purity”, meaning that they would restrain from engaging in other financial functions than the provision of first mortgages (cf. Glasz, 1935: 23 etc). This meant that Dutch mortgage banks could or would not engage in any deposit and savings business on a term shorter than 2 years, and with easy withdrawal facilities.

**Strategy f    Become a champion of the national economic interest**

i) Commercial banks

Commercial banks contributed significantly to a democratic settlement about how to serve both the national economic interest and their own special interests. They achieved this by turning two apparently contradictory arguments into a complementary one: free trade and protectionism. Commercial banks positioned themselves as allies of both free trade associations, such as the Free Liberals and the Association of Entrepreneurs<sup>280</sup>, and the colonial lobby in the Dutch Indies. Represented by two bankers’ associations – the Rotterdam Bankers’ Association (1916) and the Amsterdam Bankers’ Association (1919), these banks, on the one hand, promoted a policy of City monetarism, much in line with free trade concerns. On the other hand, commercial banks supported the protectionist stance of the colonial government of the Dutch Indies, in the name of the

Dutch empire. Simultaneously, commercial banks vigorously attacked calls for more domestic protectionism: “the national interest is served by...international credit” (Tienhoven, 1917: 31-32). Up to the end of the 1920s, the alliance of the Dutch Bank, commercial banks, Free Liberals and the colonial lobby ensured that the Dutch government would resist provincial claims for less City monetarism, and more domestic instead of colonial protectionism.<sup>281</sup> How did this alliance hold? While Free Liberals and colonial interest groups at first sight would make unlikely allies, they shared one powerful connection: the Amsterdam Stock Exchange. Clearly, the position of Amsterdam as an international financial centre was buttressed by the combination of free trade policies and colonial protectionism. While officially the economic contribution of the colonies amounted to some 13.7 per cent of the national income, the real effect of the Indonesian presence was much bigger: it led to the trebling of the nominal capital value of all companies quoted on the Amsterdam stock exchange from 837,000,000 guilder in 1913 to 2,323,000,000 in 1939.

ii) General savings banks

Savings banks mainly defended a set of domestic special interests, in casu those of the lower middle classes. Several issues rendered the contribution of savings banks to a democratic settlement about interest group interference problematic. First, savings banks did not publicly acknowledge that they were now targeting the lower middle classes; they found it hard to dissociate themselves from their historical purpose to “enlighten” and civilise the working classes. Given the comparatively sorry state of interest group representation for the middle classes in the Netherlands, this was a missed opportunity. Second, in face of the growing prevalence of pillarisation, the social liberal leadership of the savings banks found it impossible to build a strong and united interest group. By default of a central coordinating entity, there for many decades was a lot of variety in the policies pursued by local Savings banks. Of varying social-liberal, reformed protestant, catholic and even social-democratic signatures, local Savings banks were keen to hold on to their independence. Especially the confessional and socialist Savings banks for a long time locked the attempts by the social-liberal Society for Public Welfare to improve the provision of services through central collaboration. The increasing competition of the State Postal Savings bank and the co-operative banks, however, gradually stimulated the acceptance of some sort of central organisation, resulting in the foundation of the Dutch Savings Association in 1907. Nevertheless, the Savings Union for many years remained a relatively weak institution incapable of overcoming the autonomy claims of local Savings banks<sup>282</sup>. The establishment of a central Savings Bank Bureau in 1924 gradually would help to bring more unity in the diversity of the movement, but not in a decisive way.

iii) State Postal Savings Banks

The State Postal Savings Bank constituted the undisputed financial interest group of the working classes, certainly in urban areas. In many ways, the Bank managed to serve the public interest – safeguarding the welfare of the working classes – by substituting a better financial return for working class agitation or interest group polarisation. On the one hand, the Bank had a highly paternalistic philosophy: it diluted working class interests to a “lowest common denominator” motto of cheapness and accessibility. On the other hand, the Bank made sure that as many as possible of the working classes would remain “a-political”, and out of reach of the Socialist party. All in all, the State Postal Savings Bank in the eyes of the majority of Dutch economic citizens

constituted the model of working class interest representation. The non-working class did not trust the working class, and the bulk of the working class was content to have a stable vehicle of financial security. All this meant that the State Postal Savings Bank in many ways facilitated the – from the viewpoint of the Dutch State – prudent integration of the working classes in a system of universal suffrage. While the State is the best political support a firm can have, it is not an interest group. Already in the 1920s, when other banks were playing with their interest rates and the State refused to follow, it became clear that the State Postal Savings Bank in many ways was too dependent on the State, the latter being an instrument of neutrality rather than special interest advancement.

iv) Co-operative banks

Co-operative banks proved remarkably able to adapt to “national globalisation” trends, which greatly helped to position themselves as important to the national economic interest. This ability had its origin in the nature of Dutch agriculture, which since the Golden century had been characterized by the use of large quantities of imported inputs and large-scale production for European markets.<sup>283</sup> Building on this tradition, Dutch farmers from the 1870s reorganised their activities in co-operative dairy factories and regional marketing boards, all with an eye on reinvigorating their import-export orientation.<sup>284</sup> Especially in the diluvial, southern provinces with their sandy soils, North-American competition compelled farmers to transform their business and specialise in intensive cattle-farming and dairy products.<sup>285</sup> This allowed farmers to gradually change the relation between international and local market structures to their advantage; as early as the end of the nineteenth century Dutch farmers managed to obtain favourable prices for their products in international markets (De Jonge, 1971: 37).<sup>286</sup> For co-operative banks, this in concreto meant that they were catering to an agricultural membership which focused as much on international exports as on the development of principles of circle confederalism and pacification.<sup>287</sup>

Undoubtedly, the denominational agricultural interest groups with which the Co-operative Banks and their members were associated since 1896 contributed greatly to the integration of minorities in the Dutch political system – ensuring amongst others a measure of predictability in the new post-WWI environment of universal suffrage.<sup>288 289</sup> The Catholic, Protestant and Liberal agricultural unions were strangely complementary in this regard.<sup>290</sup> The Liberal Union was least popular, and did not have a very significant following from the turn of the twentieth century onwards. Still, during the nineteenth century it had provided a way to institute State-aided agricultural education. The Protestant agricultural union, for its part, had the largest following, but was not as politically distinctive than the Catholic Union, especially since the Protestant-neutral co-operative banks were not formally associated with their Union – in contrast with their Catholic counterparts.<sup>291</sup> The Catholic Union most forcefully represented the minority of catholic farmers mobilised by the Catholic co-operative banks.<sup>292</sup> It were Catholic spiritual leaders such as Van den Elsen and Catholic politicians such as Bahlmann and Truyen who first insisted on the need of government protection. In return, they made two promises. They vowed to return a well organised agricultural class, a promise on which they certainly delivered.<sup>293</sup> They also made strides to accommodate the interests of the established estates – local shopkeepers, merchants, etc..., for instance by not consorting with consumer co-operatives.

One problem for the Catholic co-operative banks was that the political potential of the catholic government representatives and parliamentary fraction had always been

disproportional to the actual size of the Catholic population in the Netherlands (more than 35 % of the population in 1925). Maybe this explains why Catholic politicians could not obtain the institution of a separate governmental department of agriculture; agricultural affairs often were handled by the Department of Economic and Home Affairs, despite the 1905 establishment of a separate agricultural directorate within the ministry of Agriculture, Commerce and Trade (Smits, 1996: 86). Another problem for Catholic co-operative banks was that their Union was slightly isolationist: the Catholic agricultural union promoted a somewhat contentious combination of Orangist tradition and contemporary papal ghetto tactics.<sup>294</sup> Clearly, the Catholic Farmer Union was perceived as somewhat « sectarian » by the Dutch Bank and an important part of the government, especially the ministry of finance. Also, the low debit interest and high credit interest rates charged by both the catholic and protestant co-operative banks' were a thorn in the eyes of commercial banks; they did not differentiate much between co-operative banks in their criticism. Rather than manifesting itself in direct attacks, criticism was relayed to the Dutch Bank, which started a campaign of stigmatisation vis-à-vis the co-operative banks. These latter banks were not only refused access to the Dutch Bank's discount facilities most of the time. They were also confronted with statements like "if agricultural credit would run into problems, we shall not be able to support them on a large scale", knowing that commercial banks had received extensive support in periods of crises.

Still, all this criticism should not be exaggerated. As acknowledged by the visiting minister Talma in 1911: there have always existed "good relations between the Government, the Ministry of Agriculture, no matter what name it operated under, and the Central Bank".<sup>295</sup> As proof of these good relations, Central Bankers pointed to the subsidizing accorded to the co-operative banks and chargeable to the agricultural budget, that went on until 1915. These good relations were founded on the steadfastness of, on the one hand, the co-operative banks, and, on the other hand, the reinvigoration of Dutch agriculture between 1895 and 1913. On instigation of especially Catholic leaders, the agricultural co-operative movement after WWI markedly raised its political aspirations. After almost two decades of agricultural wealth, the cost/benefit balance of Dutch agriculture decreased – from 1919 onwards. In spite of a looming agricultural financial crisis, the Dutch government decided to stick to a free-trade policy. Conscious of the need to establish direct entry point in politics, the catholic farmer union – the KNBTB – established a lobby office in The Hague. From then onwards, the KNBTB would invest all its energy in promoting the values and interests of catholic farmers. In addition, the Union took great care of developing an educational system that would elevate the moral condition of the farming community to a level at which both self-sufficiency and harmonious social relationships would become a reality. In line with papal policy that since the late nineteenth century prescribed corporatism as the best remedy for the « socialist evil », the KNBTB at the same time worked at the realisation of a corporatist organisation of the farmer classes. A first step towards this goal was made when in 1922 the three farmer unions, the catholic KNBTB, the protestant CBTB and the liberal KNLC, decided to confer with each other on a regular basis so as to develop common lines of action towards farmers (Smits, 1996: 116-117). All these preparatory moves would provide the farmer unions with a decisive advantage on other economic pressure groups in the 1930s, when the going would become tough for everyone.

v) Mortgage banks

Mortgage banks again were the weakest of all financial organisations when it came to being seen as serving the public interest. This is remarkable, given that there was an enormous national demand for housing after WWI. Instead of spurring the growth of mainstream liberal mortgage banks, it was the mortgage bank set up by the catholic co-operative banks that most profited from this boom, to reach a market share of 25 percent by the 1930s. This bank, however, was not affiliated to the official Control Bureau, but rather remained closely associated to the Catholic Co-operative Central Bank. Another remarkable aspect of Dutch mortgage banking, is that it suffered from the effectiveness of Dutch housing policy, rather than benefited from it. As argued by for instance Bauer (1935: 282-283), Dutch housing policy was remarkable effective in comparison with other Western countries.<sup>296</sup> But given that this effectiveness was due to growing organisation along pillarised lines, the mortgage banking market not only remained fragmented economically<sup>297</sup>, but also politically.

Still, one aspect of government policy seemed to play in favour of mortgage banks' perceptions as vehicles of the public interest: statutorily the State Postal Savings Bank not only had to invest part of its savings in mortgage bonds, but also had to supervise the instances from which it bought mortgage bonds, in casu the private mortgage banks. The fact that they were supervised by such a trusted entity meant that mortgage banks were perceived as more secure vehicles of public housing policy (Janssens, 1992: 28). On the other hand, it also meant that mortgage banks' autonomy to negotiate their private political position was very reduced. The mortgage banks tried to fend off this indirect form of public control, by establishing an own Control Bureau that would render supervision by the State Postal Savings Bank futile. But in face of the recent troubles of the mortgage banks, this attempt was not deemed appropriate before 1928 (De Knocke van der Meulen, 1981:41).

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<sup>144</sup> This national dualism had been compounded in the first decades of the 19th century by the temporary incorporation of a "third nation": the Flemish and Walloon provinces in the southern Netherlands.

<sup>145</sup> Up to the 1860s and 1870s, this contradiction between two nations had been mitigated by the fact that Amsterdam very much had become a "sleeping capital of the nation" (Brugmans, I.J. Thorbecke: 202). After the 1870s Amsterdam gradually increased in population, wealth and cosmopolitan entrepreneurialism, so as to transform from "the capital of [polderland]" into a national capital with genuinely cosmopolitan aspirations (cf. Dillen, 1964).

<sup>146</sup> Before 1795 there had been no political unity in the Dutch province of Limburg. During the era of the United Provinces, only a few parts of Limburg belonged to the Dutch Republic; the rest of the province was ruled by many other rulers such as the King of Prussia, the Austrian Emperor and the Prince Bishop of Liege (Jappe Alberts, 1974; Op den Camp, 1993a and b).

<sup>147</sup> This feeling was especially predominant in Limburg as the following quote in 1848 reveals: "We are Dutch as far as financial debts are concerned...in all other respects, we are considered strangers" (1848 De Limburger, cited in Op de Camp, 1995: 93 and Knippenberg, 1999: 48).

<sup>148</sup> People in the provinces of Brabant and Limburg were more ambivalent towards the Holland Regents than towards the outer province Orangists. Popular opinion in Limburg and Brabant was dominated by the belief that the Holland Regent class never really wanted these two provinces to be included in the Republic, as they only cared about their own commercial interest. Indeed, the Regent class considered the predominantly catholic provinces of Limburg and Brabant a "foreign" region. In fact, it was only due to the insistence of the Princes of Orange against the will of the "Holland regents" that Limburg and Brabant were liberated from the Spaniards and granted their republican liberties (cf. Thewissen, 1937: 15). If it weren't for his assassination, so goes the story, William the Silent could have maintained peace between Catholics and Protestants, and avoided a north-south divide on a religious basis (cf. Sneller, 1938). As the Orangists never succeeded in occupying a position of domination, their threat to strengthen the Dutch Reformed orthodoxy to the detriment of religious freedom of conscience was never consolidated. Also, during the periods in which the Dutch Republic did not have a

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Stadtholderate, Orangists successfully voiced the opinion of the disenfranchised “commonalty”, which - more than in other provinces - important groups in Brabant and Limburg belonged to.

<sup>149</sup> After the defeat of the French in 1813, the House of Orange made its come-back in the Netherlands. The country was converted into a kingdom.

<sup>150</sup> In fact, William of Orange followed a dual-track strategy of national recovery. On the one hand, to help finance the industrialisation of the newly joined southern provinces, William set up a National Investment Society. On the other hand, in order to help Amsterdam gain back its role as a major import-export entrepot, the King financed a new colonial war - the Java War - and set up a new colonial society - the Dutch Trade Society (Fritschy, 1988).

<sup>151</sup> The problems he encountered were similar to the ones encountered by his 16th century predecessor in the Low Netherlands: there was lack of unity and solidarity between, on the one hand, the northern and southern Netherlands, and, on the other hand, the western and eastern provinces in the Northern Netherlands.

<sup>152</sup> Contrary to more successful European countries, the process of nation-state building in the Netherlands in the first half of the nineteenth century was not eased by increasing fiscal revenue, as economic growth in the North languished and proclivity to tax evasion was high in the South. In 1830, the southern Netherlands finally separated in the Kingdom of Belgium. As these latter provinces were the main source of taxation in the country, however, tax revenue even more than before fell short of expenditure. With public debt soaring, King William I tried to bypass parliament with ever more ingenious financial constructions (‘t Hart et al., 1997: 197).

<sup>153</sup> Part of the catholic elite was prepared to support the Liberals in exchange for ecclesiastical and educational concessions.

<sup>154</sup> Grouped around the leader Thorbecke, the Liberals pressed for constitutional change which would open the Dutch governing system to the middle classes.

<sup>155</sup> The acceptance of ministerial responsibility and direct elections for the Second Chamber in 1848, and several other reforms drafted by the liberal leader Thorbecke, were the most significant concessions made by the king. Of course, it took decades before the legal change led to the recognition in practice of collegial cabinet government, and of the necessity for a government to enjoy the confidence of a parliamentary majority.

<sup>156</sup> With the constitutional change of 1848, Dutch Liberals had succeeded in legally abolishing privileges based on descent and prohibiting any interference of the Protestant Church in public matters. Still, since the liberal victory of 1848 derived more from the influence of foreign revolutions than active changes of heart in the Netherlands itself, conservative forces allowed the “great-protestant” heirs of the Regents to remain influential until WWI. This is because, while being more particularistic of character (Stuurman, 1983: 115), the conservative purposes of the Regents were much more resonant in popular opinion than the abstract conceptions of the Liberals. In fact, contrary to England in which liberal values spread fast beyond bourgeois quarters (Breuilley, 1992: 233), the liberal culture of good citizenry remained rather small in the Netherlands.

Thus, despite the liberal democratisation offensive from about 1840 until 1870, it took the recognition - in face of the emerging threat of socialism in the Netherlands - of the so-called “Social Question” by a second wave of Liberals in the 1870s, for these reforms to become more tangible. As we will see later, paradoxically, this formal reinforcement of the *laissez-faire* towards religious beliefs led to an informal reinvigoration of the power of religious mobilisation, as the impending pillarisation along catholic and Protestant lines would show.

<sup>157</sup> Local tax autonomy was curtailed and public finances became more unified. The new constitution stated explicitly that all public expenditures were subject to approval by parliament with the ministers responsible for the financial deeds of the government.

<sup>158</sup> The first sector accounted for up to 50 percent of the Dutch labour force, the second for less than 25 percent.

<sup>159</sup> Still, the influence of Christianity was less pervasive than this figure would lead to believe. In fact, only a large part of the farmers and the small citizenry were deeply religious. Members of the propertied citizenry were only vaguely religious. A large part of the workers were even quite antagonistic towards religion. Still, since 1854 religious views prevailed in the Dutch Poor Law. Poor relief was acknowledged as the exclusive responsibility of religious and private charities. Thus, a combination of liberal and confessional influences had decreed the primacy of private initiative in affairs of poor relief (Van der Valk, 1991: 102).

<sup>160</sup> Contrary to England and France, before 1848, liberalism in the Netherlands was still in its infancy (Robijns, 1967: 327). Liberals were considered dangerous by the vested authorities, since they did not yet show the tendency to promote vested interests, as meanwhile had become the case in France and Britain.

<sup>161</sup> Indeed, because the liberal victory of 1848 derived more from the influence of foreign revolutions than active changes of heart in the Netherlands itself, conservative forces allowed the Regents to remain influential until well after that date. This is because, while being more negative and particularistic of character (Stuurman, 1983: 115), conservative purposes were much more practicable and concrete than the abstract conceptions of the Liberals.

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<sup>162</sup> In fact, agriculture was the first economic sector in the Netherlands where knowledge and technical development were widely diffused, partly through government initiative (and subsidizing), partly through private initiative. The development of agricultural statistics, the stimulation of innovation and the provision of adequate agricultural education were the main pillars of this democratisation movement. Mechanisation, and its corollaries of fast disposal of labour and enlargement of the agricultural area per farm unit, and intensification of production, in the form of improved fertilisation techniques and crop improvement, were the immediate purposes of the proposed liberal policy (cf. Maat, 2003: 233, 236-245). The Liberal government of the 1860s – led by Thorbecke – was quite well-disposed to these propositions, and adopted a variety of agricultural educational forms in the 1863 Law on Secondary Education, with a possibility for local initiators to apply for subsidies. In 1876 a Public Agricultural School was founded in Wageningen. This public school, however, in the beginning was not very successful. In face of the agricultural crisis of the 1880s, government tackled the limited capacity of agricultural research and education by subsidising the opening of new experimental stations all over the country. Government was in charge of, on the one hand, providing scientific knowledge through its public school and itinerant teachers, and, on the other hand, taking up the role of arbiter in the testing of product quality, for instance of fertilisers, milk or sugar beets. The private sector, for its part, through its provincial Agricultural Societies and annual congresses was in charge of trying out and disseminating technical innovations by foreign companies, domestic artisans or farmers.

<sup>163</sup> These societies were initiated by members of the upper classes and by large landowners, and for some decades set the tone. A Dutch Agricultural Congress – *Het Nederlandsch Landhuishoudkundig Congres* – was established in 1846 on the initiative of one of the regional societies. The Congress convened on a yearly basis to discuss the diffusion of new ideas and innovations in the agricultural field. Apart from establishing the Congress, the regional agricultural societies organised meetings, exhibitions and competitions...all attempts to diffuse knowledge and use of new agricultural technologies. The number of members of these organisations increased from about 10,000 to about 30,000 between 1850 and 1880 (Bieleman, 1996: 17-19).

<sup>164</sup> In this period, quick expansion in the agricultural sector strongly correlated with rapid growth for the total economy, and vice versa.

<sup>165</sup> For instance, in response government induced the regional societies to establish a central national organisation to better represent and discipline farmers' interests.

<sup>166</sup> What financing activities existed for farmers and urban workers? To begin with, there existed limited customs of mutual help in the farming communities (less so in the urban worker communities). In addition, farmers and urban workers could access the local department of the Society for Public Welfare for small amounts of money. Finally, less philanthropic credit was offered to farmers by corn-merchants, cattle-dealers, and shopkeepers, who exchanged food products and cattle-fodder on credit for eggs, butter and cheese. Because these local merchants succeeded in building small credit-monopolies in many Dutch regions, farmers were forced to settle for buying goods of a low quality at a high price, and selling goods at comparatively low prices.

<sup>167</sup> Because of the capital affluence of the Netherlands before the agricultural crisis, interest rates in the countryside generally had been low, and practices of usury by local merchants – who exploited farmers' need for short-term credit – had been scarce. During the agricultural crisis of the 1880s and 1890s, however, "usury" became a widespread phenomenon.

<sup>168</sup> Of course, workers (and to a lesser extent farmers) necessitated other services too. Especially institutions ensuring collective (health and retirement) security plans were needed. And, in face of the extensive tampering with the quality and the prices of food by shopkeepers, some protection was also needed in the area of food supply.

<sup>169</sup> Before 1848, members of government were primarily of a Conservative signature. By the end of the 19th century, there were no more Conservatives in Parliament.

<sup>170</sup> Dutch Baptists, especially from the beginning of the nineteenth century, adapted to the new reality of an Orangist kingdom by repealing their sixteenth-century proscription of participation in public (government) office (or the military). Confronted with the radicalisation of the Dutch Reformed Church (as exemplified by the *Afscheiding* in 1834 and the *Doleantie* in 1886), the general baptist purpose became to join the liberal, non-confessional movement in the Dutch, protestant Church...This resulted in an emphasis on a practical, undogmatic and free-spirited christianity as materialised in local, autonomous municipalities with as little as possible central interference (Hoekema and Voolstra, 1999: 24-26).

<sup>171</sup> In order to create a homogeneous nation of rational and civilized citizens, the Liberals proposed several constitutional changes, amongst which the following two. First, a separation of church and state had to be instituted so as to relegate the religious heterogeneity of the citizenry to the private realm. So, as the father of the Dutch constitution, Thorbecke stated in August of 1853: "It is time, that we in the political field substituted the consciousness of a Dutch nation for the notion of a protestant nation" (cited in Boersma, 1949: 255). Second,

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more than in England, it were the Dutch Liberals who emphasized the need of educational reform and homogenisation through a public school system.

<sup>172</sup> As argued by Graff (1991: 279), the “greatest function of the modern school was to teach a ‘new patriotism’ beyond the limits naturally acknowledged by its charges...The school’s task included not only national and patriotic sentiments, but establishing unity in a nation long divided by region, culture, language and persisting social divisions of class and wealth”. The same applies to the Netherlands, where the establishment of a national education system was part of the liberals’ strategy to create an homogeneous Dutch nation within the confines of the territorial state of the Netherlands (cf. Amersfoort, 1982; De Vrankrijker, 1969; Knippenberg, 1996).

<sup>173</sup> The first generation of liberals, however, limited their democratisation aspirations to the propertied and educated middle ranks. Indeed, to be considered a liberal, one not only had to be well off financially. Extensive socialisation in the Amsterdam Regent – “Heeren” – clubs was another implicit condition (Vonhoff, 1966). Not surprisingly, once their demands for more democratisation for the (upper) middle ranks had been translated in constitutional changes (1848), the Thorbeckian Liberals moderated their tone. They claimed that the lower middle and worker ranks had to be educated, but not so much as to put the establishment in peril (Stuurman, 1983: 114).

<sup>174</sup> Afraid of alienating confessional workers, the Socialists indeed finally decided to support the confessional parties against the liberal State in their struggle for financial equalisation of public and private education (Korver, 1987: 45-46).

<sup>175</sup> Where the catholic and protestant parties demanded full state funding of their parochial schools, the social democrats, together with progressive Liberals and some Christian democrats, had long been fighting for universal suffrage. More conservative Liberals were defensive on both issues.

<sup>176</sup> After the establishment of the fledgling Free Trade Association in 1896, the Anti-Tariffs Committee was created by the Free Liberals in 1911.

<sup>177</sup> The social liberal movement had already emerged during the 1860’s and 1870’s. In face of the dire living conditions of the working classes, the social Liberals were not at all reluctant about promoting active citizenship and self-control amongst workers. To make their moral ideals practicable, the social Liberals relied heavily on Co-operation as an economic instrument to tackle social issues from within the working classes, without intervention from the State (see Appendix A, section 7).

<sup>178</sup> Sociaal-Democratische Bond, SDB

<sup>179</sup> Sociaal-Democratische Arbeiderspartij, SDAP

<sup>180</sup> The political program of the Social Democratic Union largely derived from the Gotha Program that the German Socialist Workers’ Party (Sozialistische Arbeiterpartei Deutschland, SAD) had adopted at its foundation in 1875. The program consisted of two partially contradictory subprograms: an analysis and diagnosis of capitalist society and a set of programmatic demands that called for state intervention.

<sup>181</sup> This platform was largely derived from the Erfurt Program of the German SPD and also had a built-in tension between the theoretical part and the plan of action. The first part predicted the collapse of capitalism and the transition to socialism; the second part made demands on the existing state. This tension between social theory and political policy in the Second International led to the revisionism dispute, which in the Netherlands fuelled a protracted internal party controversy that involved drafting a new SDAP platform. The authors hoped to restore party unity and resolve the tension between theoretical perspective and practical policies.

<sup>182</sup> Finally, the party held that the social democratic movement should act not only in light of historical tendencies, but also from ethical principles. In sum, the party saw itself as the political representative of the working class and its activities as promoting the transition from capitalism to socialism, also through universal suffrage. But the advent of universal suffrage did not produce a social democratic majority. Nor did the social structure increasingly simplify into two antagonistic classes.

<sup>183</sup> This movement was coined the “April movement”.

<sup>184</sup> The parallels between developments in the new nation-state of the Netherlands in the nineteenth century and developments in the the new Dutch Republic in the sixteenth and seventeenth centuries indeed are remarkable. The first political party in the Dutch Republic was set up by dogmatic protestant preachers in alliance with leading merchants during the Dutch Revolt. After the revolt, the merchants increasingly distanced themselves from protestant dogmatism, to form a Regent status group which increasingly used the Protestant Church as an instrument of pragmatic domination, much to the frustration of the preachers.

<sup>185</sup> Paradoxically, this would greatly facilitate the incorporation of former outsiders in the nation-state of the Netherlands. Thus, the Reformed Protestant tradition of democratisation is quite ambiguous in its incorporation of both elements of the logic of outsider and the logic of establishment.

<sup>186</sup> For instance, the North Brabant manufacturers went into opposition against the liberal tariff law of 1862.

<sup>187</sup> From 1897 until the end of WWI, a conscious political strategy focused on the population of farmers was out of the question. Yet, failures to influence free-trade government policy towards farmers, induced the catholic

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farmer union, the KNBTB, to think about setting up a Farmer Party in its own right during WWI. At the end of the war, the KNBTB finally decided not to set up a political party, but to invest all its energy in making a contribution to the catholic state programme. Events in the WWI had a lot to do with this decision. Before the war, during which the Netherlands maintained a precarious neutrality, the political parties were still bitterly divided. liberal free-traders held a firm grip on government policy. Gradually however, the war helped to rally the parties around a common programme, with as major issues the financial position of religious schools and the suffrage.

<sup>188</sup> After the divorce of Liberals and Catholics in Parliament, Catholics allied to some extent with the Conservatives: they were against excessive government interference in civic and economic life, wanted lower taxes – most notably in matters of national defense, expressed the need for more protection of domestic products, were against the extension of the suffrage and repudiated government-sponsored social measures.

<sup>189</sup> While before 1900, the association of protestant and catholic elites against socialists and Liberals still resembled a temporal “monstrous alliance” of archenemies. Yet, after 1900 the idea that Christian beliefs could act as a binding agent gained ground. Association between Protestants and Catholics only happened amongst the elites of each pillar. The lower groups of each pillar were very antagonistic vis a vis each other (for instance judging by the then popular expression “two beliefs on one pillow, the devil has to sleep between”). The protestant leader Kuyper talked about an antithesis between believers and non-believers, the Christian gospel and the (liberal or social) revolution. Both Catholics and Protestants demanded full subsidizing of denominational education (just like public schools) and the possibility to stimulate organisation based on their own convictions. Still, while temporally suppressed, the old antagonism between Protestants and Catholics remained latent. The predominant feeling amongst Catholics was that the Dutch Protestants did not consider them as forming part of the true Dutch nation. As such, the Protestants would make sure that Catholics would always remain politically, civically and economically subordinate. Indeed, in the eyes of Dutch reformed Protestants, the Catholics could never be good citizens, because they would always remain loyal to the Pope as the highest authority.

<sup>190</sup> The process of pillarisation implied the organisation of standards of “propriety”, “decency” and economic welfare per denominational population.

<sup>191</sup> While primarily premised on a logic of outsider, the catholic doctrine of subsidiarity differed from the Reformed Protestant doctrine of “own circles”, in that it purposively provided for, on the one hand, state-business cooperation, and, on the other hand, a distinction between the public and the private sphere. More particularly, the catholic tradition was in favour of the State delegating public authority to private corporations, be they employer-employee councils, pastoral councils, or unions. Thus, unlike the Reformed Protestant tradition, the catholic tradition prescribes not only harmonious co-operation between Capital and Labour, but also with the State. Remarkably, even more than the Protestants, the Catholics were against modern notions of the sovereignty of the people. As such, while being in favour of some democratisation as a means to gain corporate rights, the catholic leaders clearly foresaw an elite/participant boundary of active versus passive democratisation. Indeed, in its peculiar, but clearly defined combination of a logic of outsider and a logic of establishment, the catholic tradition arguably is the one drawing most on republican guild traditions (cf. Van Waarden, 1992a).

<sup>192</sup> In contrast with Protestants, who emphasized more the self-reliance of individuals, Catholics pictured their population as backward children in need of pastoral guidance. Not surprisingly, where the Protestants were the first to create their own schools, the Catholics were the first to create farmer-cooperatives.

<sup>193</sup> The Catholics did establish their own Savings banks, but these joined the more general savings Union only in 1925 once the pillarisation movement had taken definite shape amongst workers.

<sup>194</sup> Knippenberg (1999: 49) argues that the restoration of the Episcopal hierarchy in 1853 increased the national Roman Catholic Church considerably. On the one hand, Brabant and Limburg were not considered missionary territory anymore by the Pope, and Dutch Catholics were now free to lead the way in their interpretation and implementation of encyclical letters such as the *Quanta Cura*. On the other hand, local churches increasingly were connected to the national Catholic Church. The result of all this was the purging from Catholic leadership of most liberal elements and the increasing mobilisation of the population of Brabant and Limburg on strict Catholic grounds.

<sup>195</sup> For an overview of the popularity of the different religions over time in the Netherlands, I refer to Appendix C.

<sup>196</sup> This tendency was strengthened by the Bank Act of 1863, which stimulated the Dutch Bank to open offices in the entire country.

<sup>197</sup> Before becoming president of the Dutch Bank, Nicolaas Gerard Pierson was one of the leading new-, young-liberal economists in the sixties and seventies of the nineteenth century. He was very worried about the decline of Dutch colonial trade. He urged against the agricultural cultivation system imposed by the Dutch government on its colonies. He argued that, in this regard, the Conservatives really were «playing brinkmanship» (Van Maarseveen, 1981: 106-115). With regards to the poverty question, Pierson was strongly influenced by the

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German historical school which posited that for a good functioning of the societal organism an equilibrium between classes is a first requisite. Poverty is a disruption to this equilibrium, as a result of which the working classes become too dependent of the wealthy. A new equilibrium can be found through fostering the association principle in the working classes.

<sup>198</sup> As the president of the Surinam Bank (1865-1868), Pierson had already helped to found an institute of “popular improvement” – the “Paleis voor Volksvlijt”. From 1866 to 1870 and from 1872 to 1874, Pierson, a self-avowed idealist, was a member of the local school commission (Van Maarseveen, 1981: 141). The driving element of societal progress for Pierson was the free and complete development of the capacities of each individual, regardless from his societal origin ; education with equal opportunities for everyone was the first condition to this. Thus, the duty of government was to provide for good education (142).

<sup>199</sup> Pierson was raised in a well-to-do Amsterdam mercantile family which diligently participated in the Protestant revival movement.

<sup>200</sup> The Anti-Revolutionaries were a group of Calvinists which constituted the spearhead of lower middle and working class opinion, and which were the first to form an organised anti-Liberal political party.

<sup>201</sup> Letter from Pierson to J.A.Alberdingk Thijm, Amsterdam, 26/10/1868 (UB Nijmegen, Afdeling Handschriften).

<sup>202</sup> Letter from Pierson to J.A. Alberdingk Thijm, Amsterdam, 21/10/1868, UB Nijmegen, department of “Handschriften”. Originally, Pierson’s political ideal was to form a « true » liberal party, differentiated from both Conservatives and « pseudo »-Liberals, in alliance with Catholics and anti-revolutionaries. In this party, the three groups would work together on the basis of a fair separation of church and state, without encroachment in each others’ principles. Indeed, not only with regards to colonial policy but also in relation to the school question, Pierson argued for an alliance between conservative liberals and anti-revolutionaries, against what he called «overzealous, freethinking » social liberals (145). So, he argued: « Let us not forget, we who call ourselves Liberals...that we borrowed our best moral principles...from Christianity » (Pierson, Mr Keuchenius, VEG III 534-536). However, when catholic publicists such as Thijm, who also was member of the school committee, under the influence of the papal encycum « Quanta cura » and « Syllabus errorum » changed political course in the period 1866-’68, and in accordance with the catholic bishops not only resisted the « neutral » state school, but advocated a rupture with the Liberals and an alliance with the conservatives Pierson argued: « You do not know how much effort it costs to maintain the principle of tolerance towards Catholics in Protestant circles. Pierson increasingly was afraid that the Catholics in their struggle for a « private education » would want more than a free church in a free state and after the granting of privileges would seize the power to take away non-Catholics’ rights to freedom. The demons of Isabella of Spain, the [brandstapel] and so on were recurrent metaphors used by Pierson and other against the catholic « reactionaries».

<sup>203</sup> When at the end of the seventies some radical Liberals joined Socialism of the Chair, which amongst other things propagated a greater state influence, Pierson openly turns away from them and with that from radical new-liberalism (Van Maarseveen, 1981: 225).

<sup>204</sup> As a « progressive liberal », Pierson was a proponent of financial internationalism. A promoter of the gold standard, he claimed that it would not take long before gold would be deposited and received against fixed prices in all European banks. Surpluses or deficits of this metal would soon disappear. What is more, «between the civilised people of Europe a relation of solidarity will be formed in the area of monetary policy, which, because it includes so many, would not be a burden for anyone in particular » (Pierson, Het stelsel van metaalaankopen, 42-43).

<sup>205</sup> Prolongations were backed by securities, commodities or other exchange-traded collateral.

<sup>206</sup> Oddly, it began when a Dutch baptist Blijdenstein moved the seat of his “cashier firm” from the provincial city of Enschede to Amsterdam, and changed its name to “Twentsche Bank”.

<sup>207</sup> Up to the mid-nineteenth century and even beyond, the word “bank” even seemed to cause fear in the Dutch provinces, the main reason being that banks did not have any contact with a domestic public in the provinces since they were exclusively oriented towards the trade of international emissions (Brugmans, 1963: 44-46).

<sup>208</sup> Though provincial banks had profited from the wide availability of uniform and priced bill credit through the prolongation system – the national money market reinvigorated by the Dutch Bank in 1860 – this also meant their added value to the market was very low. And securities already found their way to the public through a dense network of intermediaries – be they brokers, commissioners or bankers.

<sup>209</sup> Nevertheless, from 1894-1914 commercial banks gradually took the legal personality of public limited liability incorporated company as they became conscious of their changing role in Dutch industrialisation. The techniques adopted by commercial banks, however, remained virtually unchanged until 1911, with the merger of two banks in the Rotterdam Banking Association (Rotterdamse Bankiersvereniging). The merger was followed by a series of

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takeovers of smaller commercial banks. As a consequence, the five largest commercial banks were able to reposition their position in the Dutch financial system centered in Amsterdam.

<sup>210</sup> So, it was up to the steamship lines and railway companies to informally undertake this task after 1890.

<sup>211</sup> These were the so-called “Nutsdepartementen”.

<sup>212</sup> In 1817, the Society for Public Welfare started encouraging local departments to set up Savings banks. By promoting saving, the departments would reinforce the liberal-moral identity of the Netherlands, by reforming the behaviour of the lower income-classes into a more productive direction. King William I expressed great interest in this initiative. This has to be seen in the context of the construction of a unitary State, and the creation of the Dutch Bank in 1814 with the support of the King. As such, it is not surprising that it was William I who first instructed the investigation of the possibility of establishing a single Savings bank for the entire country (Ribbe, 1890: 8). Yet, the time was not ripe for this yet. For one, the idea of a central Savings bank was not in keeping with the decentralised, particularist structure of the Society. The local departments not only often were quite different in their political and economic approach, but also keen on maintaining their self-governing character. In addition, the idea of a national Savings bank compelling workers to deposit part of their salary into the Savings bank, so as to make them save more money, did not square with the Society’s liberal character (Dankers et al., 2001: 36). The Board of the Society therefore responded to the King not to find the plan of one national Savings bank practicable. Notwithstanding this negative answer, William I still supported the setting up of local Savings banks in a more particularist, decentralised fashion.

<sup>213</sup> Above all those “enlightened” liberals who also participated in the “Vereniging van Volksvljijt”.

<sup>214</sup> From 1893, Co-operatives to buy inputs like fertilizers and feed stuffs, and Co-operatives to process and sell agricultural products like dairy factories and sugar beet refineries were playing an increasingly important role in the modernisation of agriculture (Van Zanden, 1985: 51).

<sup>215</sup> The purpose of the institution of Central Banks was to delegate the power to pool financial resources and coordinate non-local banking expertise to an overarching unit consisting of a Board of Directors, a Supervisory Board and staff employees. Deliberation between the Central councils and the local banks was instituted on a regular and obligatory basis in a General Assembly, a common policy-making forum. In this General Assembly, the local banks decided on nominations for the Board of Directors and Supervisory Board in the first place. Though being affiliates of the Central Bank, the local banks were independent co-operative bodies, with an own board and administration, and an own policy responsibility. As shareholders of the Centrals, the local banks were statutorily entitled to vote in the General Assembly, which in theory made them the main decision-makers of the Central Bank. In practice, however, the Board of Directors and, to a smaller extent the Supervisory Board, had a very important role in coordinating and setting policy-making. The Board of Directors was entrusted with the administrative management of the Central Bank. The Board was responsible for appointing the cashier (according to the statutes the most important administrative function), decided on the acceptance of members, and determined interest rates, provisions, credit rules and limits. The Supervisory Board, on the other hand, superintended the general management of the Central Bank and had to grant permission for the proposed interest rates, provisions, credit rules and limits. The Supervisory Board consisted mainly of administrators from local banks. The Board of Directors, for its part, consisted of legal and financial experts and a few representatives of local banks, who after spending some years in the Supervisory Board switched to the Board of Directors. Contact between the Centrals and the local banks mainly took place through inspectors that regularly controlled the cashbox of local banks. This organisation structure would remain virtually unchanged for many decades.

<sup>216</sup> Why were two different Centrals founded? The establishment of two different Centrals has, with the benefit of hindsight, been explained as the result of early forces of value-rationalisation along emerging pillarized lines, as expressed in a different choice of legal personality by the Protestants and the Catholics. So, the official argument goes that the protestant-christian leaders of the Dutch Farmer Union viewed the law of 1855 on “moral bodies” as not solid enough for the foundation of credit banks. catholic leaders, on the other hand, deemed the establishment of credit banks according to the law of 1876 on “co-operative bodies” too time-consuming (Van Campen et al., 1940: 49). Yet, more instrumental power issues and personal quarrels also seem to have had a hand in these different preferences (Hollenberg, 1958). When the North-Brabant provincial union, on the initiative of father Van Elsen, proceeded to the institution of a Commission for Raiffeisenkassen, it was the member of the Commission Van Rijckevorsel who was assigned the task to draw up regulations. Van den Elsen, twice sent back Van Rijckevorsel’s drafts with a lot of comments, while preparing his own draft version in the mean time. Though the Dutch Farmer Union subsequently approved both drafts, the one of Van Rijckevorsel and the one of Van den Elsen, Van Rijckevorsel afterwards bore a grudge against Van den Elsen. Since Van Rijckevorsel, together with his brother, in the mean time had come to occupy an influential position in the Dutch Farmer Union, this would have important consequences.

<sup>217</sup> In fact, at the outset all member banks of both Centrals were founded on the basis of the same five principles (the first two are about the purpose of Co-operation, the last four are about the basic organisational techniques ensuring the practicability of the first two principles): 1) the cooperative type of organisation is the expression of the concept of mutual (financial) aid, 2) the cooperative type of organisation does not aim at making profit, 3) funds must be managed as prudently and as economically as possible, 4) any profits are to be allocated to the reserves, 5) the cooperative's operational area is restricted to its local community, to be established in agreement with the Central Bank, 6) the cooperative's members have unlimited liability for any deficits in case of liquidation

<sup>218</sup> Four markedly different properties characterized the purposes of the catholic and Protestant-neutral central bank. First, the catholic Central specified its purpose to include not only the material edification of farmers, but more importantly the moral. Because of the more neutral aspirations of the Protestant-neutral Central, it did not mention this last moral element. Second, the catholic Central's statutes explicitly stated that all self-interest should be excluded in favour of altruism. The Protestant-neutral central bank put much more emphasis on individual independence. Third, to preserve the purpose of altruism, the catholic Central stuck to the condition of several and unlimited liability of members for debts. The Protestant-neutral Central, on the contrary, already in 1903 downgraded this condition to limited liability. Fourth, fearing the interference of non-farmers in the local banks, the catholic Central Bank did not allow non-farmers like local merchants to become member of the local banks, and make use of their credit facilities. Fearing the influence of non-Catholics, the catholic Central posed an additional condition: it was also necessary to be a member of a local farmer union. Though the co-operative banks formally have always operated independently of the farmer unions, in 1905 a statutory amendment was drawn up which specified that the NCB and the LCB (the Christian Unions from the provinces of North-Brabant and the Limburg) would get two representatives in the Supervisory Board of the Central Bank. The Protestant-neutral Central, on the other hand, was much more focused on rapid growth, and therefore substantially relaxed the condition of being a farmer to obtain membership. In addition, the more neutral protestant-neutral central bank did not feel anything for compulsory membership in the Farmer Union (Year Report catholic Central: Centrale Boeren Leenbank, 1901, Bijlage XI: 20-21).

<sup>219</sup> What is most telling about the years of pillarisation is the sequence in which structural changes in politics, civil society and markets came about. For instance, it is not the introduction of proportional representation in the Dutch system of politics which gave birth to a multi-party system, but rather the opposite: proportional representation was adopted to give a fair place to new political, civic and economic elite-follower alignments (Daalder, 1975). In other words, it was neither through the formal political system nor through civil society that the reality of pillarisation was created. Similarly, it was not a market necessity in terms of instrumental rationalities of costs and prices that caused the formation of pillarized economic networks. Rather, it was the way elites transformed popular opinion beyond existing political, civic and economic rationalities, which caused changes in the relation between civil society, politics and markets. In turn, this ultimately impacted on what constituted sound economic growth in the nation-state of the Netherlands.

<sup>220</sup> Dutch Catholics, on the other hand, preferred to emphasise the catholic character of Low Countries during their own Golden Centuries – the 15<sup>th</sup> and the 16<sup>th</sup> centuries (Raedts, 1992; see also Bornewasser, 1989).

<sup>221</sup> The Reformed church (1787) split in 1834 (schism of reform-minded), in 1886 (Doleantie) and 1944 (Gereformeerden GPV). Catholics did not experience schisms; in 1870 the pope was declared infallible; the antagonism of modernism/liberalism formed a further rallying cry.

<sup>222</sup> Paradoxically, because they were isolated by the other elites, the socialists were compelled to expand within the confines of their own "pillar", which resulted in a quite elaborate network of institutions.

<sup>223</sup> The existence of a fourth pillar therefore remains contested at best (Lijphart, 1982), virtual at worst.

<sup>224</sup> "Vereniging Vrije Ruilverkeer"

<sup>225</sup> This important pressure group was instrumental in blocking a parliamentary motion for tariff reforms by the catholic Dobbel in 1894. Subsequently, the Anti-Tariffs Committee was founded in 1911 by trade elites to block a bill for tariff reform introduced in parliament by the Catholic minister Kolkman. In 1913, the question « free trade or protectionism » even became a main issue in the elections, which were won by the free trade supporters (De Boo, 1989: 31; De Vries, 1974: 275).

<sup>226</sup> The Amsterdam Stock Exchange in particular became a very important market for foreign currencies. Especially German banks had contributed to this development. Most notably, the Deutsche Bank established an important affiliate bank in Amsterdam after WWI. The Dresdener Bank and Commerz-en Privat-Bank, for their part, were well represented on the Amsterdam stock exchange. After the restoration of the golden standard – Germany in 1924, England and the Netherlands in 1925, France in 1928, though, the market exchange of foreign currencies waned to some extent (Dillen, 1964: 524-525).

<sup>227</sup> Before WWII, the Dutch interest in Indonesia – both economic and political – was sizeable. While officially the economic contribution of the colonies amounted to some 13.7 per cent of the national income by the 1930s,

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the real effect of the Indonesian presence was much bigger. Apart from boosting industrial export, the Dutch Indies were of immense importance for the financial establishment in Amsterdam. It led to the trebling of the nominal capital value of all companies quoted on the Amsterdam stock exchange from 837,000,000 guilder in 1913 to 2,323,000,000 in 1939.

<sup>228</sup> When during WWI a political truce was established between the different pillars, socialist leaders seized the opportunity to occupy positions in city councils. The result of the first elections under the proportional representation system was disappointing for the socialists : the SDAP obtained only 22% of the votes. This meant that the SDAP could be excluded from the cabinet formation of 1918. Nevertheless, with the moral examples of the Russian revolution in 1917 and the German uprising of workers and soldiers in 1918, the mood amongst Dutch workers and soldiers was revolutionary (Van Dongen, 1992). Encouraged by the first hasty signs of liberal capitulation, Troelstra, the chairman of the SDAP, in november 1918 therefore declared in the Lower Chamber that the revolution would not halt at the frontiers of the Netherlands and that the socialists were ready to take over power in the country. But Troelstra was wrong : the incumbent government did not resign. To a large extent, this was due to the lack of support that Troelstra enjoyed within the top of his own party. This top in 1918 already was co-opted by the existing political system, meaning that it did was not ready to risk its painfully acquired rights. This was especially remarkable since the social-democratic doctrine until the 1930's entailed a radical reform of society. After Troelstra's declaration, everyone who was not socialist joined around the queen in a massive anti-socialist demonstration on november the 18th of 1918. Despite the fact that Troelstra remained the leader of the SDAP until 1925, he afterwards never was able to restore his authority in the lower chamber. In fact, during the whole interbellum period the socialists were sidelined to an unwished-for ghetto-position. While the social-democrats still managed to occupy several positions in city councils, they were systematically shunted at the national level. As a result of their permanent minority position, the social-democrats were forced to choose the path of isolation and organize a separate "red" pillar (Daalder, 1990 : 208).

<sup>229</sup> With the introduction of the general suffrage for men in 1917 and for women in 1919, every citizen in any district in the Netherlands could now participate in the election of the Lower House. This constitutional amendment entailed the abolition of an electoral system based on districts and customary privileges, in favour of a recognition of the fact that the Netherlands was a country of minorities, politically divided by ideological convictions. Though the general suffrage had important implications for all political parties like the protestant-christian Anti-Revolutionary Party (ARP) and the Social-Democratic Labour Party (SDAP) of the socialists, it had even more for the catholics. Before 1917, catholics had not experienced any electoral competition in the southern districts, while election of catholic candidates in ideologically mixed districts was virtually excluded (Daalder, 1990 : 203). As a consequence, the catholics had not bothered to invest much energy in the formation of a national political party before this date. After a lot of internal disputes, this eventually happened in 1926 with the foundation of the RKS (Roman-Catholic State Party). Most fragmented were the liberals, who had not realized the necessity of party formation in the nineteenth century, at the peak of their power, and now were divided in three groupings and several one-man parties. By establishing the Union of Freedom in 1921, a fusion of several of these groupings was attempted. Nevertheless, a dividing line between liberals and liberal democrats durably persisted. The period after 1918 witnessed the massive development of societal institutions based on these different ideological convictions.

After 1917, christians and catholics together had a majority in Dutch Parliament for more than half a century. Within this confessional coalition, the anti-revolutionaries of the christians explicitly were the dominating faction. Though the catholics most often had the majority of the votes, they were doomed to follow rather than lead any coalition for several reasons. First, a latent anti-catholicism united the other parties. Second, catholics were almost always unanimous about catholic issues, but often disagreed about non-catholic issues, which made their political voice more negative than positive when it came to these last issues (Daalder, 1990 : 206). In fact, contrary to the self-confident christians, catholics increasingly joined the confessional coalition in a spirit of resignation and isolation. Therefore the protestant slogan of the Dutch as "Gods own people" dominated the formation of Dutch identity more than any catholic slogan.

<sup>230</sup> In addition, in Appendixes D and E I visualise the growth over time of these organisations in terms of respectively total assets and share in the savings market. Finally, for an overview of the evolution of the combined Co-operative Centrals' share of the Dutch mortgage market, I refer to Appendix R, Table 3.

<sup>231</sup> Growth since 1910, given that in 1901 Co-operative Banks had barely started, in contrast with the comparator firms.

<sup>232</sup> Another part of the explanation is historical precedent. Before the arrival of commercial banks in the 1860s, an extensive network of cashiers existed in the Netherlands. These, however, had always refused to pay for deposits. What is more, Dutch savers' distrust of financial institutions was substantial at this time. The sovereign bond defaults of the late eighteenth century and the parlous state of government finances in the early nineteenth century

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(with government debt hovering around a staggering 400% of national income) meant that even the paper money circulated by the Dutch Bank (set up in 1814 at the behest of King William I, an energetic supporter of initiatives to revive the Dutch economy) was long considered an unsafe substitute for specie. Private banking institutions were considered even more dubious; a view confirmed when the first wave of new banking ventures of the 1860s was followed by a spate of banking failures in the long recessionary period starting in 1870.

<sup>233</sup> In doing this, the banks piggybacked on the revival of colonial commerce, and the industrialisation process in foreign countries. In other words, Dutch economic revival was not the result of commercial banks taking the lead in the industrialisation process. Dutch commercial banks merely adapted to the circumstances (Klein, 1973: 142).

<sup>234</sup> There were civic and economic reasons for this. Civically, Dutch bankers and their customers formed part of a relatively cosmopolitan, Amsterdam-based establishment, which did not want to be associated with the lower ranks. Economically, providing retail services to urban workers was not imaginable, because of the lack of capital owned by these workers. The lack of economic interest in farmers, on the other hand, had two main reasons. On the one hand, the credit terms needed in agriculture were longer than the ones applicable in trade and industry – market sectors which had shorter production cycles than the seasonally bound agricultural activities. On the other hand, credit had to be really cheap to be affordable for farmers, since profit margins in agriculture were not the same as the ones trade and industry were used to. Consequently, financing farmers would have meant spreading credit over many small farming activities, which at the end of the nineteenth century did not offer many guarantees of success. This would have resulted in rising administration costs and very low profits for banks. While economically the disinterest for farmers and workers was understandable, the disinterest for the lower middle classes in historical perspective can only be explained as a missed strategic opportunity.

<sup>235</sup> On the eve of World War I, the amount outstanding on prolongations at any point in time was around 400 million guilders, more than double the known deposits of all the commercial banks taken together. As a result, when during the 1860s some commercial banks started offering interests on deposits, they met with little demand.

<sup>236</sup> The prolongation market initially did not play much of a direct role in the financing of industry. The bulk of the official list seems to have been made up of foreign state loans, American railway stocks, American industrial shares and colonial securities.

<sup>237</sup> The focus on international activity and the lack of interest in domestic services was not the result of the historical monopoly of a domestic Central Bank, like the Bank of England, incorporated in London in 1694. In the Dutch Republic, there did exist something of an equivalent of the Bank of England: the Bank of Amsterdam. While this bank from as early as 1610 had performed important deposit, transfer, clearing, exchange and purchasing functions, with the defeat against the English in 1784, and the resulting bankruptcy of the East India Company, the Bank of Amsterdam rapidly declined. From then onwards, merchants grew increasingly accustomed to paying their bills outside the Bank in current money (Van Dillen, 1934: 115-116).

<sup>238</sup> Not only were savings banks the first financial organisations to introduce the concept of saving in the Netherlands – before their emergence, depositing money for a periodical interest at a special-purpose organisation was an unknown phenomenon in the Netherlands. What did exist were exchange offices and bankers that took charge of deposits, without paying out interests.

<sup>239</sup> "Banken van Lening"

<sup>240</sup> "Direkteuren der Spaarbank te Leeuwarden, aan hunne minvermogene medeburgers. Aanmoediging tot Deelneming", 25 August 1818 In *De Spaarbank te Leeuwarden gedurende haar 100-jarig bestaan 1818-22september-1918*, Leeuwarden (bijlage I). According to these directors, habits of going to the pawnbroker's shop had a pernicious effect, because one received back mortgaged goods only with great losses. The Savings bank, on the other hand, held in custody one's savings safely and advantageously.

<sup>241</sup> The purpose of all Savings banks officially was to, on the one hand, provide "temporary advantage" through the prevention of poverty, and, on the other hand, improve the "moral well-being" of lower-income groups.

<sup>242</sup> Table based on Bulder, 1998: 698; Weststrate and Visser, 1948; CBS Statistiek der spaar- en leenbanken voor het jaar 1910-1911, 'sGravenhage 1913.

<sup>243</sup> Co-operative banks explicitly contrasted their purpose with the one of commercial banks. For instance, in 1912 a member of the Board of Directors of the protestant-neutral central bank argued that "comparing co-operative with commercial banking is impossible on a great many accounts. Our purpose is not to make profits, but to provide farmers with easy and cheap credits." The Directors of the catholic central bank even went beyond this purpose, by adding to it the "moral elevation" of farmers.

<sup>244</sup> Catholic priests organised a veritable witch-hunt against any sign of "modernism"; any sign of tolerance amongst the Catholic population was branded "dissent" and could lead to "excommunication".

<sup>245</sup> To accommodate the ideological differences between local banks in Friesland, Groningen and Drenthe, the Co-operative Central Raiffeisen Bank had to position itself as a neutral enterprise (Van Campen et al., 1940: 58),

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though in practice Reformed Protestants and secularized, “great-christian” Protestants constituted most of the members.

<sup>246</sup> The Catholic bank played a pivotal role in the agricultural network of catholic purchasing co-operatives, farmer unions, consumer co-operatives and collective insurance and retirement institutions. The protestant-neutral bank’s network was not as densely organised. Links with the protestant farmer union, clergy and schools were weaker. Also, the latter central bank did not invest a significant portion of its assets in protestant collective insurance and retirement institutions like its catholic counterparts, but rather kept it for payments to its members. Finally, the local banks affiliated to the protestant-neutral central bank were less ideologically uniform and more prone to safeguard their own independent course vis a vis the central bank.

<sup>247</sup> In particular, they reinvented the following Geus cries - in the original, old-Dutch language:

“Helpt nu u self, soo helpt u Godt,  
Uyt der tyrannen bandt en slot,  
Benaude Nederlanden!  
Ghij draecht den bast al om u strot,  
Rept flucks U vrome handen!”

(Van Balen, 1938: 13).

<sup>248</sup> The ratio own resources/total resources amounted to 6.4 for the former and 4.7 for the latter bank in 1930 Barou, 1932: 211. The local banks affiliated to the catholic Central, while only having 1,128 members for 33 local banks in 1899, already had 66,470 members for 537 local banks in 1925 (Van Campen et al.: 375). The saving deposits at the catholic local banks grew from 199,000 guilder in 1899 to 108,467,000 guilder in 1925 (Van Campen et al., 1948: 555). The local banks affiliated to the protestant-neutral Central, on the other hand, while having 4,605 members in 1903 for 77 local banks (13 in 1899) already had 124, 282 for 710 local banks in 1925 (Weststrate and Visser, 1948: 351). The saving deposits at the protestant-neutral local banks went from 90,000 in 1899 to 240,853,000 guilder in 1925. A last figure is illuminating with regards to the percentage of farmers mobilized as members of each Central. The first population statistics per denomination in the Netherlands were gathered in 1930. The statistics of 1930 show that, while there were 529,708 men involved in agricultural enterprises in 1930, about 200,000 of them were Catholics, about 300,000 reformed protestant, and the rest was either atheist, jewish, etc... At that moment, the co-operative banks affiliated to the catholic central bank in total had 73,954 members (37 percent), while those affiliated at the protestant-neutral central bank counted 154,432 members (47 percent). Yet, taking into account that the protestant-neutral central bank also accepted non-Protestants as members – in contrast with the catholic Central – and that about a third of the Catholics lived in the provinces covered by the protestant-neutral Central, these figures have to be qualified.

<sup>249</sup> From 46 at the end of 1899, the number of local co-operative banks rose to 875 in 1913, 1000 in 1917 and 1247 in 1925 (De Vries et al., 1999: 176).

<sup>250</sup> The co-operative banks owed their comparative success to different factors. First, the combined informal authority of local notables and clergy meant that an overwhelming amount of catholic and protestant farmers became members of co-operative banks. Second, the affinity of co-operative bank administrators with local farmers was an invaluable help in monitoring the creditworthiness of members. With regards to the catholic central bank, the conditions of unlimited liability and membership in a local Farmer Union, were additional guarantees to the prudent conduct of members and administrators. Third, to avoid corruption of the mutual interest, administrators of local banks – affiliated either to the catholic or protestant-neutral central bank – did not receive any salary. This substantially reduced the co-operative banks’ administrative costs.

<sup>251</sup> This afterwards resulted in emissions of these stocks to private investors.

<sup>252</sup> See Appendix S, Table S.3 for information on interlocking directorates at the turn of the twentieth century.

<sup>253</sup> Indeed, the increasing investment by commercial banks in colonial endeavours from WWI onwards to some extent brought economic stability in the colonies and closer links with the Netherlands.

<sup>254</sup> Not only was the involvement of the Dutch Bank in the Dutch Trading Company striking. Of all commercial banks that were not active in the Dutch Indies with a branch network, the Amsterdamsche Bank was most involved. Five of the eight directors of the Amsterdamsche Bank in the interwar period held commissioner offices in Indonesian companies. F.S. Van Nierop, director of the Amsterdamsche Bank from 1872 to 1920 and liberal senator, was chairman of the board of several affiliated companies in the Dutch Indies, both in the “steam tram” and sugar industries. Other bankers that formed the core elite in the Dutch Indies came from the Rotterdamsche Bank (vereeniging), the Twentsche Bank and some private banks such as H. Oyens & Zn and Labouchere. Oyens & Co’s Bank (Taselaar, 1998: 66-67). The directors of the colonial and Dutch banks occupied a central position in the network of Indonesian entrepreneurs. Four clusters of banks of Dutch origin could be distinguished in the Dutch-Indies organised around the Dutch Trade Company – “Nederlandsche Handel-Maatschappij”, the Dutch-Indian Trade Bank – “Nederlandsch-Indische Handelsbank”, the Dutch Bank – “Nederlandsche Bank”, and the

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Amsterdamsche Bank. The Dutch-Indian Trade Bank and the Dutch Bank cooperated closely (Taselaar, 1998: 67).

<sup>255</sup> Urban workers were reticent to make deposits at the Savings banks for two main reasons. First, the paternalism of the local Societies for Public Welfare in terms of limited withdrawability rules and the rejection of the growing consumerism in city-life, made that many working people were not willing nor able to make deposits. Second, the Society lacked sound judgement about the reasons for poverty. Poverty a fortiori was not a sign of moral decay; historical data show that low wages, and the shortage and irregularity of employment caused poverty amongst workers during the 1840's (Dankers et al., 2001: 84). Yet, the liberals insisted that poverty and the lack of saving habits were the cause of the moral decay of the working population (e.g. Kemper, 1851: 165). By emphasizing bourgeois values of self-help and self-sufficiency at the detriment of practical economic measures, the liberal reformers of the Society failed to mobilize many workers, especially in light of the growing competition of more economically realistic players in the savings business, namely the State Postal Savings banks from 1881 onwards, and the co-operative banks from the turn of the century.

<sup>256</sup> Already in 1818 did the Board of the Harlem department notice that "it mostly are those who live in relative wealth, rather than working people, that use the savings bank" (Pruissen, 1934: 176). In 1830, about 0,8 percent of the Dutch deposited money into Savings banks. More importantly, in view of the high average balance per depositor (172 guilder), it is clear that only very few of the indigent deposited money into Savings banks; the first saving revolution had failed by default of both the low standard of living in the Netherlands and the lack of pragmatism characteristic of Savings banks' customer services.

<sup>257</sup> Due to the efforts of the local Societies for Public Welfare, from 1870 to 1880 the percentage of the Dutch population that deposited savings grew from 2.5 to 5.5 percentage. With the advent of the State Postal Savings Bank, however, this percentage multiplied rapidly.

<sup>258</sup> As shown in Appendix R, the co-operative banks had a much better cost structure than the commercial banks in the first sixty years of their existence, despite the fact that the number of Co-operative branch offices grew exponentially compared to that of the commercial banks. Only the State Post Savings bank, which could rely on a pre-existing network of postal branches, had a comparably advantageous cost structure. Also, the Co-operatives charged lower interest rates on credits and mortgages than their commercial counterparts. Of course, the fact that fewer credits were granted and then only under conditions of strict social control, meant that the Co-operatives' debtor risk was considerably mitigated compared to that of the commercial banks. In addition, the embeddedness of local banks' structure in pre-existing local networks lessened the need to invest in the banks' visibility – either through publicity stunts or by investing in aesthetically distinctive branch outlets. Finally, while the co-operative banks for a long time were banned from using the Dutch Bank's cheap lending facilities, they made intense use of the Amsterdam prolongation market set up in 1860 under supervision of the Dutch Bank to compensate for this. In terms of total assets, the co-operative banks by 1917 were quickly catching up with the Savings banks. On the other hand, the commercial banks' international customer base and their involvement in industry after 1910 meant that their total assets increased exponentially compared to their not-for-profit counterparts (see Appendix D).

<sup>259</sup> This directly delegitimizes the myth spread by contemporary Co-operators that co-operative banks' credit services were indispensable in improving the economic condition of farmers.

<sup>260</sup> How did the Dutch co-operative banks perform in comparison with their European counterparts? In Germany, there was, on the one hand, the Agricultural Central Loan Bank, founded by Raiffeisen in 1876, which served as a central banking institution for the rural credit societies of the Raiffeisen Federation in Germany. Contrary to the Dutch co-operative banks, the inflation period of the 1920s was very difficult for the Bank. When in 1925 it became clear that the assets of the institution had been misused by a part of the central administration, the whole capital, amounting to 25,000,000 marks was lost. In 1931 the Bank was in a process of liquidation (Barou, 1932: 215). On the other hand, there was another co-operative bank, the Prussian Central co-operative bank, which had been founded in 1895 by the Prussian State to promote co-operative credit for the middle classes in town and country, had a total turnover of 775,833,451 marks in 1930 (some 460,146,820 guilder). The Bank by that time had become a central institution for the co-operative movement of the whole of Germany. While in 1919 the total assets owned by the Eindhoven (71,916,000 guilder) and Utrecht (55,957,000 guilder) amounted to 127,873,000 guilder, total assets of the Eindhoven (93,386,000) and Utrecht (103,456,000) central banks in 1930 already amounted to 196,842,000 guilder. Taking into account that the Netherlands had a population that was almost ten times smaller, and that the Dresdner Bank also targeted non-agricultural people for membership, these figures are impressive. In England, for its part, no agricultural co-operative banks were established.

<sup>261</sup> In the Netherlands, the agricultural Co-operatives boosted a social modernisation process which brought agriculture even in the most remote areas into contact with the international market, among other things through the implementation of the newest techniques and education facilities. So, where by 1899 there were some 924

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agricultural Co-operatives registered, 416 of them for darying, by 1913 there were no fewer than 1,177 agricultural purchasing associations, with more than 104,000 members (Wintle, 2000: 177).

<sup>262</sup> Despite the depreciation of the currency and the expansion of the number of members, the funds lent out by co-operative banks only increased modestly, from almost 15 million guilder in 1913 to about 21 millions at the end of the war. The number of loan records remained stationary, while the average debt ratio per record only increased from 693 guilder in 1913 to 880 guilder in 1918. During WWI it became even clearer that co-operative banks were more savings than credit banks.

<sup>263</sup> As elaborated above, there were little civic or economic incentives to raise the interest of commercial banks for farmers, the working classes or even the lower middle classes. Politically, no pressure was being exerted on commercial banks either in this regard. Instead, the government sponsored the foundation of Savings banks and encouraged the establishment of co-operative banks to provide services for the first two target groups.

<sup>264</sup> The different laws were: the Wet of de bedrijfs en andere inkomsten (1893), the Wet op de Inkomstenbelasting (1914), and the Wet op de Dividend- en Tantiemebelasting (1917) (cf. Sonnenschein, 1959: 143-147).

<sup>265</sup> In addition, the co-operative banks set a minimum deposit of 1 guilder, a maximum amount which could bear interest of 5000 guilder.

<sup>266</sup> The less pivotal role of the protestant-neutral central bank as compared to the catholic central bank in the pillarisation movement revealed itself in terms of the comparatively greater civic legitimacy of the Eindhoven leaders – in the co-operative agricultural movement of the catholic Dutch provinces (cf. Sluyterman et al., 1998: 41).

<sup>267</sup> The economic relevance of the Dutch Indies had shifted from trade to financial relations since about 1900. While ready access to the Dutch capital market arguably was to the benefit of some economic development in Indonesia, this happened at a severe price: a shift in company ownership and a continuous transfer of dividend and interest payments to the Netherlands (Van der Eng, 1998).

<sup>268</sup> Not only was the involvement of the Dutch Bank in the colonial Trading Company striking. Of all commercial banks that were not active in the Dutch Indies with a branch network, the Amsterdamsche Bank was most involved. Five of the eight directors of the Amsterdamsche Bank in the interwar period held commissioner offices in Indonesian companies. F.S. Van Nierop, director of the Amsterdamsche Bank from 1872 to 1920 and liberal senator, was chairman of the board of several affiliated companies in the Dutch Indies, both in the “steam tram” and sugar industries. Other bankers that formed the core elite in the Dutch Indies came from the Rotterdamsche Bank (vereniging), the Twentsche Bank and some private banks such as H. Oyens & Zn and Labouchere, Oyens & Co’s Bank (Taselaar, 1998: 66-67). The directors of the colonial and Dutch banks occupied a central position in the network of Indonesian entrepreneurs. Four clusters of banks of Dutch origin could be distinguished in the Dutch-Indies organised around the Dutch Trade Company – “Nederlandsche Handel-Maatschappij”, the Dutch-Indian Trade Bank – “Nederlandsch-Indische Handelsbank”, the Dutch Bank – “Nederlandsche Bank”, and the Amsterdamsche Bank. The Dutch-Indian Trade Bank and the Dutch Bank cooperated closely (Taselaar, 1998: 67).

<sup>269</sup> The State Postal Savings Bank was established by the Social Liberals Kerdijk and Sasses.

<sup>270</sup> Cf. Archives Rabobank Nederland, 1914

<sup>271</sup> Some 80 per cent of these directors lived in Holland - about fifty percent in Amsterdam, 20 percent in Rotterdam and 9 percent in Den Haag.

<sup>272</sup> As in England, representatives of old private banking firms occupied almost half of the interlocking directorates – 389 positions in Dutch limited liability companies in 1911. Notable examples of these private banking firms were the Amsterdam-based Wertheim & Gompertz and H. Oyens & Zoon and the Rotterdam-based Jan Havelaar & Zoon and R. Mees & Zoonen (Schijf, 1993: 68; cf. Eisfeld, 1916).

<sup>273</sup> Compared to their 35 % share of the population, Catholics were very underrepresented with their 5 percent.

<sup>274</sup> The percentage decreased from about 14 percent in 1901, to 6 percent in 1919 and 2 percent in 1930 (Buning, 1957: 283-291).

<sup>275</sup> General Assembly Savings Union (Spaarbankbond), 1917: 20.

<sup>276</sup> Co-operative banking from the beginning enjoyed a rather favourable scientific press coverage. So, Westerman in 1923 argued that at the beginning of the century few would have predicted that the co-operative banks would be so successful. On the other hand, Van Hengel, director of a commercial bank in Amsterdam, despite the steady growth of co-operative banking, in 1929 expressed great concern about their policies (Van der Valk, 1939: 478). He posited that co-operative banks up to then had profited from favourable agricultural market conditions, which had protected them from large losses. As such, Van Hengel claimed, the fundamentally flawed practice of paying overly high rents and demanding low rents, remained hidden. Surely, a longer period of agricultural depression would lead to the same disillusion that commercial banks had experienced during the 1920’s (cf. De Vries, 1973: 15).

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<sup>277</sup> Het “plan voor de oprichting van een hypotheekbank?” van de “eigenlijke grondlegger van het Nederlandse hypotheekbankwezen...Mr. Ph. J. Bachiene” in 1840 werd “via het departement van Buitenlandse Zaken en de Gouverneur van Zuid-Holland” volledig afgekraakt door “de Kamer van Koophandel te Rotterdam....Het werd noch nodig – omdat iedereen te allen tijde een hypothecaire geldschieter kon vinden – noch nuttig geoordeeld – want de bevordering van de landbouw en nijverheid bestaat niet in het gemakkelijk maken voor een ieder om land te kopen of zaken te doen. De Kamer vond het plan zelfs gevaarlijk; hypothecaire leningen moesten slechts verschaft worden indien dat niet anders kon en zeker niet aangemoedigd worden. Onbelaste goederen waren immers een werkelijke rijkdom van het land“ (Janssens, 1992: 22-24).

<sup>278</sup> The pre World War Two housing policy in the Netherlands was based on private investment with legislation authorizing the construction of social housing, dating back to 1901, being ‘used only as a stopgap’ (Van Weesep and Van Kempen, 1993: 185)

<sup>279</sup> To keep the management of housing out of politics, municipal developments...are turned over to semi-official societies operating quite independently of the city government. Housing societies in Holland are almost invariably founded and administered by the tenants or would-be tenants themselves. Groups usually center around some common interest, either religious, political... (Bauer, 1935: 285).

<sup>280</sup> This Association was presided by directors of large companies such as Unilever.

<sup>281</sup> A clear victory came with the 1913 elections, when the question « free trade or protectionism» first emerged as an important political issue. These elections were decisively won by the free trade supporters – the majority of the Catholic minister Kolkman was defeated (De Boo, 1989: 31; De Vries, 1974: 275).

<sup>282</sup> The Catholic Savings banks, for instance, only joined in 1925.

<sup>283</sup> Contrary to the situation in England, the enclosure movements in the Netherlands had been weak. “Organic” traditions of small family entities still prevailed in much of the country, especially in the provinces of Brabant and Limburg

<sup>284</sup> In the river-clay districts and in Limburg horticultural exports expanded vigorously; in the Betuwe the conservation industry, which was strongly orientated to exports, greatly helped the expansion. The export of market-garden products was above all of importance around Venlo, whereas in the north many vegetables were shipped to England by way of Haarlingen...Zeeland and north-west Brabant, where formerly the economy had been determined by madder, was now a region where sugar-beet covered most of the surface. In the course of the nineteenth century - if we may thus summarize the development of the agricultural sector - a certain intensification in the regional division of labour had taken place, which was related to a further specialisation in the various agricultural areas. This implies among other things that in the so-called Outer Provinces, agriculture, like industry, and sometimes hand in hand with industry, became an important basic factor, in the sense of creating and spreading income and employment. Hence these areas provided a good sales-potential for the business of Holland. They indeed performed the part of 'draught horse' with regard to the wealth of the nation as a whole. Agriculture itself owed its increase of wealth not only to more specialisation and enlarged production, but also to its improved selling outlets. The economic position of the isolated farmer had once been weak, because he did not know the market value of his produce and because, moreover, among other difficulties he was not often free to sell to the highest bidder, for he was in debt to the shopkeeper who was also his chief customer. By forming associations for the auction of produce like butter, eggs and vegetables, the farmers managed to change the market-structure to their advantage and to obtain better prices (De Jonge, 1971: 37).

<sup>285</sup> Farmers had to change the way they conducted their business: agriculture had to become more intensive. The soils had to be improved and fertilised, and investments had to be made in a bigger livestock (Campen et al, 1948: 150).

<sup>286</sup> Small farmers profited most from the innovation of the co-operative organisational form. This new organisational form helped them get rid of the dependence on local monopolists and the diseconomies of small-scale production of butter and the marketing of inputs. As such, the innovations after 1880 strengthened the position of small farmers, so as to lead to a decline in the proportion of wage workers in the total agricultural labour force and an increase in smallholdings at the expense of large ones (Jonker, 1988).

<sup>287</sup> The first two episodes of especially the Catholic co-operative bank in the Netherlands provide a good illustration of this first relational dynamic. Drawing, on the one hand, on the Regent tradition – freedom of conscience, cosmopolitan economic autonomy and reaction against established monopolies, and, on the other hand, the Orangist tradition – protection of authentic liberties, unity, and a strong central executive – the Catholic Co-operative central bank successfully mobilized a maximum of Catholic participants, while reaching a settlement with the other elites.

<sup>288</sup> With the establishment of the system of pillarisation and corporate subsidiarity in the late 1910s and 1920s, farmers took for granted membership in confessional Unions and Co-operatives.

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<sup>289</sup> Before the advent of the Christian Unions in 1896, there was no centrifugal force for the promotion of agricultural catholic interests.

<sup>290</sup> According to the regulations of July 4th 1896 the Dutch Farmer Union was a national organisation with individual members. Yet, to increase its grasp locally, the Union decided to form provincial unions, with fateful consequences. When the Dutch Farmer Union in 1897 effectively launched its agricultural program, it appeared it was substantially curtailed in its operations by the already functioning provincial unions. In particular the North-Brabant Christian Farmer Union (NCB) and the Limburg Christian Farmer Union (LCB) were not intent on waiting for national decisions, but started forming their own institutions (70). For instance, shortly after its foundation in 1896, the NCB proceeded to institute a « Commission for RaiffeisenKassen ». This Commission first of all had to draft statutes for the future co-operative credit banks. Not surprisingly, the foundation of co-operative banks in North-Brabant originated with the local farmer unions, with the full support of the NCB and its spiritual advisor Van den Elsen. These catholic co-operative banks subsequently founded the catholic Central on december the 24th 1898, with the support of the NCB and the LCB). Formally, the co-operative banks have always been independent of the politically engaged farmer unions. Informally, however, the influence of leaders like Van Elsen was fundamental in the local banks. To cope with the provincial urge for independent initiative, the Dutch Farmer Union had to change its centralist organisation structure to a federal one. In addition, it had to transform its ideology from a general christian to a purely catholic organisation.

<sup>291</sup> Fearing the influence of non-Catholics, the catholic central bank posed an additional membership condition: it was also necessary to be a member of a local farmer union. Though the co-operative banks formally have always operated independently of the farmer unions, in 1905 a statutory amendment was drawn up which specified that the NCB and the LCB (the Christian Unions from the provinces of North-Brabant and the Limburg) would get two representatives in the Supervisory Board of the Central Bank. The protestant-neutral Central, on the other hand, did not feel anything for compulsory membership in a Farmer Union pertaining to a specific denomination.

<sup>292</sup> More than any other type of bank in the Netherlands, Catholic co-operative banks overtly relied on the protection of a special interest organisation: the catholic Farmer Union, established in 1896. Inspired by the encyclical *Rerum Novarum*, the catholic leader Van der Schueren envisaged a Union that combined economic activities with a religious-moral purpose. Van der Schueren immediately announced that the “Farmer Union” would actively pursue “the promotion of purposive improvement of laws and regulations in favour of land ownership”. (Smits, 1996: 32). As such, he pointed to the need of political intervention to improve the condition of farmers. More importantly, he noted that only on the condition that the Farmer Union would be protectionist, it would have a right to exist. On the other hand, Van den Elsen, the spiritual advisor of the provincial union in North-Brabant, at first was against an active meddling of the farmer union with politics. He presaged it would mean the demise of the Union: “If the Farmer Union itself becomes an electoral union and meddles with politics, then politicians will start meddling with the Union...using the Union for political purposes, thus robbing it of its working environment and labour force, diverting it of the the righteous path, and importing in the Union the discord proper to politics» (“Geen politiek in den Boerenbond”, in: *De Noordbrabantse*, May 23th 1897).

<sup>293</sup> On reason they could is that, contrary to their great-Christian counterparts, Catholic co-operative leaders convincingly argued that only a sufficient degree of centralisation of their movement would entail an adequate response to corrupt cooperative practices such as the « evil of the truck system » practised by some butter factories.

<sup>294</sup> Its strategy, which was followed by catholic co-operative banks, can best be summarised by the following mottos « In Unity lies our Strength » and « For farmers and by farmers » (cf. Van Campen et al., 1949: 94).

<sup>295</sup> CCB gedenkboek 1949: 167.

<sup>296</sup> “The public housing policy of Holland, although it did not really begin until after the Act of 1901, has so far been the most effective - both in terms of houses per population, lowness of rental in proportion to wages - of any national effort. Relatively more slum-areas have been demolished as well. Moreover, this has been accomplished at an outright cost to the Government relatively lower than in most of the other countries... (Bauer, 1935: 282). The Act of 1901, first of all, obliged all authorities to set up minimum standards of light, space, ventilation, sanitation and occupancy (Bauer, 282-2 83)...finally,, it set up a whole system of public aid for the financing of public-utility housing. State loans are provided through the agency of the local authorities...Public-utility societies...must be authorized by the Government, must engage only in low-cost housing, and must limit their dividends to four per cent (later six per cent). Members are not allowed to buy their houses. A central Housing Commission passes on the projects (Bauer, 1935: 283).

<sup>297</sup> For instance, in contrast with their savings and commercial counterparts, no major mortgage banking mergers took place in the 1920s.

## 7. ENGLISH FINANCIAL INSTITUTIONS (1815-1930)

### 7.1 Changing geopolitical opportunity structure (phase 1)

As in the Netherlands, the period post the Napoleonic Wars brought to surface several contradictions between geopolitical and domestic dynamics, to do with the emergence of two different opportunity structures for nation-building. During the Revolutionary Wars (1793-1815), the city of London had decidedly replaced Amsterdam as the Western centre for servicing international and inter-continental commerce. When the French armies occupied Europe's major commercial cities, London's primacy became overwhelming, especially given the dominance of the Royal navy in the seas around Europe and the oceans around the world<sup>298</sup>. A further tipping point was the 1821 Restoration Act, which reacquainted the Bank with the discipline of the gold standard - by imposing full convertibility of banknotes into gold. The Act was the result of moderate Tories winning the argument that a return to the gold standard was all that was needed for a system of sound finance to resurface. That is, a system in which the Bank of England would always be able to redeem paper money with gold, and would only lend on "real bills".<sup>299</sup> Real bills were those which represented actual commercial undertakings (like a purchase-order for goods on consignment), rather than speculative undertakings with no relation to the productivity of the real economy. Since provincial joint-stock banks were much better able to embody the real bill principle – and its direct democracy consequences – than existing financial intermediaries, the 1821 Act unintentionally opened the door for a second Act in 1826, which loosened restrictions on joint-stock banking.<sup>300</sup> When these joint-stock banks started joining up with the London-based clearing system – in which the Bank of England played a prominent lender of last resort role, England gradually acquired fame as the home of the soundest, most democratic financial system in the world. Ultimately, the unintentional consequences of the 1821 Act would greatly amplify London's international stature as the home of the "gold standard" (Fetter, 1965; Knafo, 2006), and heart of the emerging Pax Britannica.

#### *a) The decline of London as the guardian of "Anglican nonconformism"*

Remarkably, while London's popularity as the heart of the Pax Britannica soared from the 1820s onwards, the centrality of London in English extra-parliamentary politics had crumbled in the period 1790 to 1830 (Read, 1964: 50) – to never be fully restored. Due to its enormous physical growth, its fragmented administrative and political structures, and an intense subdivision of local identities and interests, London could no longer play the role of domestic centre of opposition and representative of popular opinion. In fact, as the financial and governmental apparatus became ever heavier, wealthier and more centred on the city, London gradually became associated with British state interests, rather than with independent city-state interests and alternative English, Welsh or Scottish identities (Keene, 2004: 477).

All in all, London's relative decline as a centre of domestic opposition was a "happy accident", an opportunity for England to reinvent its traditions in a more successful guise. It provided the industrial communities in the outer provinces with the opportunity to speak out strongly and unitedly in name of English traditions of liberty and property (Read, 1964: 52), as was the case before the end of the sixteenth century. This was particularly the case in the emerging towns of Birmingham, Sheffield, Liverpool and

Manchester. While the bulk of landlords and Whig financial interests in London associated with the tradition of Anglican voluntarism, industrial entrepreneurs in the provincial towns invented a new brand of voluntarism based on nonconformist values, belatedly coined “voluntaryism” - after the libertarian political thought of the aristocrat Auberon Herbert (Herbert, 1885, 1894; Hutchinson Harris, 1943; Mack, 1978).<sup>301</sup> Voluntaryism was a subtle mixture of traditional Dissenting ideals and political republicanism (Ellens, 1994: 269); it was “a version of laissez faire with religion and education at its heart, couched in the language of political liberty” (Helmstadter, 1979: 149).

The interaction between both groups led to some remarkable outcomes: provincial origins notwithstanding, it were the new industrialists that showed the less qualified free trade tendencies; most notably, they demanded the abolition of London-centered imperial monopolies such as the East India Company (Read, 1964: 52)<sup>302</sup>. The main unintended consequence of these industrialists’ efforts was to give the Pax Britannica and “Britishness” a “quasi democratic” status. According to the new liberal elites around the Western world, Britain – not so much England, harboured the best available system of government, and stood for an unprecedented commitment to sound money and open commerce among all nations. This status helped the British State to define its actions in terms of an international “public good” in the period 1815-1914. As a result, it was able to unobtrusively co-opt other nations in its pursuit to institute a stable international monetary system, allow the unimpeded movements of capital and migrants, and safeguard property rights throughout world trade (O’Brien, 2002: 10, 13-14, 19, 21, 53).

#### ***b) Anomalies in English history of democratic settlements***

In many ways, the period 1815-1870 was an anomaly in English history. This would pose many problems for those firms that experienced their heydays in this period – such as consumer co-operatives and freestanding companies; these firms inevitably became imprinted with “successful habits” most appropriate to this idiosyncratic period. What made these four decades so anomalous? For the first time in more than three centuries, popular opinion in England had not been centred in London, but in the new industrial cities. Second, these latter cities were staunchly non-conformist; the relative absence of Anglican institutions there meant that industrial entrepreneurs would remain more or less out of reach of dynamics of “secular Anglicanism”<sup>303</sup> and Anglican democracy before the 1870s. This situation was related to historically exceptional demographic movements, and would not be repeated in the twentieth century. Third, during these four decades British leadership in international affairs was based on a credible “cosmopolitan free trade” position, not cynical impressions of imperial preference. Furthermore, the Liberal Party arguably was the most important political organisation in this period, as it was best able to translate the above three dynamics in political leadership. Finally, in this period North-American and European nationalisms were still fledgling. This would soon change, in particular with the rise of Germany. In face of the rising tide of nationalism in the US, Canada, Australia and Europe in the 1880s, British policy became confined to preserving as much as possible of the existing free trade regime (Howe, 2002: 94). Confronted with Bismarckian power politics and its own neglect of English nationalism, the British government saw no other recourse than to occupy Egypt in 1882, participate in the new imperialism (1882-1902) and fight in the Boer War (1889-1902)<sup>304</sup>. All this shed an unfavourable light on the intentions of English cosmopolitanism and on the competence of the Liberal Party (O’Brien, 2002: 10, 13-14, 19, 21, 53). Soon, the

Conservative and Labour Parties would replace the Liberal Party at the heart of government.

The first two exceptional dynamics were also collapsing. Most notably, by the 1880s popular opinion again came to be concentrated in London and nonconformists was losing its radical appeal. How did all these changes impact on English democratic settlements? What kinds of settlements would emerge between Anglicans and nonconformists, provincial entrepreneurs and the London-centered financial establishment, landlords and the working classes<sup>305</sup> from the 1880s up to 1930? Since I am interested in the strategies of financial firms, I in particular shall consider democratic settlements in terms of concerns of national debt, savings, share investments, and ownership arrangements. These concerns played a major role in English democratisation dynamics. For instance, from the end of the eighteenth century through the nineteenth century, public creditors of the national debt – most notably the Bank of England – were depicted as parasitical dealers and rentiers who lived a life of frivolous luxury at the expense of the state, national savings, and the liberties and rights of hard-working tax payers (Daunton, 2001: 112).<sup>306</sup>

## **7.2 First strategic interactions (phase 2)**

### **7.2.1 Civic organisations and political parties**

#### *i) Liberals*

While the real start of the Liberal Party as a nation-wide organisation started only in the 1860s with the ascendancy of Gladstone, the origins of the Party go as far back as the end of the eighteenth century<sup>307</sup>. In many ways, the Liberal Party grew out of the Whigs, in particular the reform-oriented Whigs such as Fox and Grey – the latter eventually carried the First Reform Act in 1832. Naturally, many radical nonconformists identified with the Liberal movement. But the Liberal Party would also be a safe-heaven for reform-oriented, “High Church” Tories such as Gladstone, and even Irish-catholic Tories such as Lord Palmerston.<sup>308</sup> Although many of self-confessed Liberals claimed to be enemies of “old corruption”, there was only one issue that united all strands of Liberals: “free trade”. Remarkably, liberals not only reinvented Whig traditions of free trade and sound money; they also reinvented Tory traditions of voluntarism and local self-government. This duality surfaced most clearly in the Party’s State model. On the one hand, Liberals held that in an emerging democracy Parliament should be dominant over local interests – especially when this would do away with Old Corruption at the local level. On the other hand, they favoured a policy of Local Acts through which cities could garner greater powers when this was seen as expedient for business or civic stability reasons.

From 1870 on, Liberal votes came increasingly from urban workers and trade unionists; as democracy advanced – the third Parliamentary Reform was passed in 1882, most Whigs and leading businessmen left the party. The appeal of the new Conservatism for former Gladstonians had three reasons. First, former dissenters now increasingly considered themselves part of the establishment. That is because, by the mid-1880s, Gladstonian Liberalism had by and large completed its work of “reforming” England in the eyes of those “radicals” that earlier united around the liberal-nonconformist democratisation project. In search of new democratisation projects, a new generation of

Advanced or New Liberals emerged as champions of the question of Irish land reform and the Third Reform Act. The new liberal moral ideal of social justice for all men just sounded too subversive and too threatening to property rights for the new establishment of landowners and business men (Perkin, 1989: 46). Second, Conservatives raised the “Church in danger” cry in 1885 when faced with the liberal Chamberlain’s<sup>309</sup> policy of disestablishment; in doing this they won over many middle-class Anglicans from the Liberals. By that time, nonconformists’ main religious and political grievances had been addressed.<sup>310 311</sup> It thus came as no surprise that nonconformist businessmen decided to side with Chamberlain on the issue of Irish Home Rule. After all, Catholicism was a bigger enemy than Anglicanism. Third, with the industrial sector declining and “orthodox” finance setting the tone, the landed aristocracy, City merchants and industrialists increasingly formed a conservative block able to buttress a more radical stance towards the defense of their property.<sup>312</sup> While provincial manufacturers did not rely on the City for investment funds, their fortunes as exporters were becoming more directly dependent on the development of the financial service sector in the south-east: foreign investment placed through London aided the export performance of staple industries at a time when they were under severe competitive strain. Finally, by the beginning of the twentieth century, the Labour Party and the Liberal Party were outbidding each other for the votes of the collectivist-minded. Polarisation ensued, which served the Conservative party well; it now was the only party able to assume the central position of defender of liberty and property in popular opinion (Soldon, 1974: 233).

How did the Liberal Party’s relation with the City of London evolve in the same time period? Since 1818 the City’s parliamentary allegiance had been almost wholly Whig. Yet in the reform crisis itself, there is little evidence that haute finance - as opposed to the ranks of City shopkeepers who looked to the liverymen for political leadership - felt any enthusiasm for political democracy. (Kynaston, 1994: 96). In 1831, it became clear that the City would be in favour of reform, not because it was desirable, but because the emerging mood in the City was that free trade and an enlarged franchise were becoming inevitable - and that therefore it was better to adjust to it than to fight it (Kynaston, 1994: 125). The City remained staunchly Whig and later Liberal up to the 1870s, when a major electoral shift took place. In 1874, the City returned three Conservatives and one Liberal<sup>313</sup>. Not surprisingly, as a result, the Liberal Party increasingly criticised the City for its conservative policies.<sup>314</sup> This despite the fact that, by the late nineteenth century, as Britain’s visible trade deficit widened, the wellbeing of the economy was increasingly dependent upon the ‘invisible’ earnings provided by the City.<sup>315</sup> It is only after WWI, when the Liberals were desperate to regain power, that they returned to their traditional economic prescriptions and reasserted that the ‘the bankers of London were the “very linchpin of national financial safety...influenced not in the slightest degree by what is know as Party Politics”. On the contrary, the bankers were now acting “solely and absolutely in the interests, not only of those great institutions which are given into their charge, but of the nation itself”.<sup>316</sup>

Before WWI, in the period 1906-1914, the main appeal of the Liberals on the working classes and middle classes lay in their position of being reformers that were not dangerously in advance of national opinion. Still, it remained a delicate operation. For instance, when Lloyd George introduced the Bill that led to the National Insurance Act<sup>317</sup> in 1911, he stipulated a compulsory scheme of contributions by employers, workers and the state.<sup>318</sup> Not surprisingly – in light of the working classes’ ingrained suspicion of State

intervention – workers and friendly societies criticised the compulsory nature of the Bill. In order to overcome resistance, Lloyd George emphasised that Victorian traditions of voluntarism and self-help had been incorporated in the Act, in casu the contributory principle and the involvement of friendly societies and insurance companies in the scheme (Pugh, 1982).

Up to 1922, the Conservatives had teamed up with Lloyd George's Liberals to form a coalition against the rise of Labour. The Conservative aim had been to attract the ex-Liberals away from Lib-Lab positions and mobilise the new, unattached voters around their national cause. Yet, when the Liberal Coalitionists' seats started falling to Labour in 1919 and 1920 by-elections, the Conservatives came to the conclusion that they should get accustomed to the inevitable, namely a Labour Party as the main alternative for government. Thus, the alliance with Liberals was not needed anymore. Coupled with the rise of a broad conservatism in the 1920s, this definitively set in the demise of the Liberal Party's currency.

### *ii) Conservatives*

As the Liberal Party grew out of the Whigs, so the Conservative Party grew out of the Tories. The label Conservative had first been suggested in the 1820s by leading Tories, but was only officially adopted under Robert Peel after the 1832 Tory defeat, the Great Reform Act. As the leader of the Conservative Party, it had been Peel, and not the Liberal descendants of the Whigs, that repealed critical protectionist policies such as the Corn Laws, and officially launched the era of free trade. What is more, it were the Tories who first introduced a critical fiscal corollary of political democratisation, namely the income tax (Imlah, 1958: 153).<sup>319</sup>

Still, these issues would create a severe split in the Conservative Party. Unity was only refound when the party – including Lord Derby – discovered that the 1867 franchise had not meant the end of the Conservative Party. Conservative members and MPs subsequently would find out that Disraeli's « gamble of extending the franchise to the urban masses » had been justified in the interests of the party after all, since it would strengthen rather than weaken the electoral position of the party not only in the longer term, but even in the very short term (Feuchtwagner, 1968: 10). This master move pre-empted the Liberal cause, gave Disraeli's speeches and campaigns about « Tory democracy » in 1872 and 1873 credibility, and helped the Conservative party win the elections of 1874, something it had not done since 1846. Despite slogans of Tory democracy, this does not mean that the Conservative Party had now found a solid foundation of popular support. While the party enjoyed considerable electoral success in the last two decades of the nineteenth century, this owed as much to divisions within the Liberal party over the question of Irish Home Rule. As soon as the Liberal Party had its act together again, at the beginning of the 1890s, they regained power, albeit only for a few years.

Despite Peel's early concessions, a particular problem for the Conservative Party was its desire to return to protectionist roots without having the public support for it. Thus, the Conservatives, led by Chamberlain<sup>320</sup>, proposed a system of tariff reforms, as a way to unify the empire, revive British industry and stimulate employment by protecting manufacturers from foreign rivals. Holding on to the policy of cheap food through free trade, the Liberals opposed Chamberlain's tariff reforms. In addition, the continued willingness of the Conservatives to ensure public funding of the Church of England, and its religious instruction in schools, once again antagonised Nonconformists. With the support of Wales, which rose in revolt behind Lloyd George and Nonconformity, and

allied to the “free trade” rallying cry (Gildea, 1987: 345-346), the Liberals forged a wedge in the Conservative party and finally brought the Conservative government to its knees in 1905.

The Liberal Party, which at the end of the nineteenth century had become a mass party relying on working-class votes, was quick to react and take over government. Taking advantage of the turmoil caused by the Boer War, the rivalry with Germany and the defeat of the Conservatives, a new movement within the party put the “social question” decisively onto the agenda of domestic politics. According to the « New Liberals » the core English concept of «liberty» had been too narrowly defined in terms of legal, political and religious liberties: the chief restraint upon liberty for most men was economic or social in nature. In other words, the individual’s material welfare should be of equal concern to the state as the individual’s moral condition (Pugh, 1982: 109). Together with some “socialist” fractions like the Fabians<sup>321</sup>, these self-confessed “progressives” forged a link between the condition of the working classes and the fate of the empire (Cronin, 1988: 217). The Conservative strategy here was to ensure “the organic structure of society”, by preventing social conflict “thereby safeguarding existing social relations”, especially those to do with property and Empire (Green, 1998: 314–15). Because the Conservatives had pushed for more active and interventionist policies, the government’s resignation gave a license to the Liberal Party to implement reforms, including with regards to State finances. To achieve the fiscal capacity necessary for implementing their modest vision of social reform and paying off the South African War debts, “new liberal” policies were devised including progressive taxes, new taxes on land and higher levels of inheritance taxes.

It is only after WWI that the Conservatives returned to power; by then, it had become very hard to reverse the Liberal Party’s policies.<sup>322</sup> Especially, because they were compromised by the coalition with the Liberals during WWI. Still, with the support of businessmen and large sections of the middle class, the Conservatives from 1922 advocated a freezing of the taxation base of the State. How did the City react? While the City did not explicitly oppose high levels of taxation, it expressed its worries about the national indebtedness and loss of foreign confidence that an expansion of the taxation base could engender. The City echoed the demands of business and of the middle classes for “economy” and for restricting the scope of state commitments and activities. In addition, the City pressed the conservative government to return to the gold standard, not only because it would guarantee the continued role of London<sup>323</sup> in world finance, but also because it would provide an automatic check on the profligacy of governments and thus would obstruct any unsound schemes for state intervention.

Fearful of the demagogic tendencies of politicians like Lloyd George, the Conservatives agreed to reimpose Treasury control over the budget. In fact, the Treasury managed to achieve a degree of control unseen before in England. So, the permanent secretary to the Treasury became the official head of the civil service.<sup>324</sup> The Treasury even won the right to appoint officers within other departments to supervise financial matters. The restoration and expansion of Treasury control in the early 1920s formed part of a much broader conservative stabilisation of British politics after the war (Cronin, 1988: 223-224): a conservative movement expressing the need to minimise the danger of overexpansive state commitments by restricting points of access to the government apparatus.

All in all, the Conservatives always seemed to fall back on Disraeli’s anti-Gladstonian speeches in 1872, in which he launched the ideas of “England and Empire”

and “Anglican democracy”.<sup>325</sup> Both ideas built on Disraeli’s 1845 “One Nation” speech, in which he called for a reconciliation of the north and south of the country, and a Conservative State able to enforce the rule of law, enlist and protect the entire nation, thus fostering a sense of national identity and unity (Disraeli, 1845; Gilmour, 1978: 86; Norton and Aughey, 1981). In the 1920s, the Conservatives relaunched these old adages, with two aims: to relaunch the Conservative Party as the only “national party” (Blake, 1997: 126-127, 130), to accuse both Liberals and Labour of effecting the disintegration of the Empire of England, and to focus on interests common to the middle and working classes. Especially the nationalist element would prove to be a great trump card for the Conservative Party, most notably in its ability to credibly launch accusations of anti-nationalism towards first the Liberals and later Labour. “Anglican democracy” throughout history would prove especially successful at profiling the Conservatives as the only party catering to the interests of the lower middle classes – such as shopkeepers and small family businesses.

### *iii) Labour*

In many ways, the Labour Party was more a spin-off of Liberal radicalism than a descendant of Marxist socialism. The early emergence of Liberal radicalism and the important role of Nonconformist religion in the liberal and subsequently labour movements have a lot to do with this. As noted by Hobsbawm (1971: 141), while most continental labour movements passed through a stage of bourgeois-revolutionary Jacobinism<sup>326</sup> before developing their independent theories, in the English Isles alone was bourgeois revolution fought and won before secular ideology had reached the masses of the middle classes.<sup>327</sup> In addition, by the 1890s trade union membership stood at only 1.5 million to 2 million, in a labour force of over 13 million. This was not such a large basis for an organised proletarian movement. Further, there is evidence that many English workers, though dissatisfied with their lot, were not basically alienated and entertained quite positive attitudes towards the political and social system (Pugh, 2002: 73). The working classes had enough in common to hold a working-class party together but not much else. Since the people it could hope to represent did not necessarily stand in a common relationship, or, except in a general way, to each other, the leadership of the Labour Party was compelled to attenuate the ideological rigour of its politics almost to vapidness (McKibbin, 1984: 40-41). Two of the prime assumptions of any Marxist party – a rejection by much of the working class of existing social institutions and a belief in the unity of “economics” and “politics” – simply did not hold. The Labour Party was not free to choose between Marxism and reformism but only between varieties of reformism.

Already in the 1880s working-class political representatives stood in parliamentary elections as Liberal-Labour candidates<sup>328</sup>. After the 1885 General Election there were eleven of these Liberal-Labour MPs. Some socialists like Keir Hardie, the Liberal-Labour MP for West Ham, began to argue that the working class needed their own independent political party. This feeling was strong in Manchester and in 1892 Robert Blatchford, the editor of the socialist newspaper the *Clarion* joined with Tom Gars, and Richard Pankhurst to form the Manchester Independent Labour Party. The activities of the Manchester group inspired Liberal-Labour MPs to consider establishing a new national working class party. Under the leadership of Keir Hardie, the Independent Labour Party was formed in 1893. It was decided that the main objective of the party would be “to secure the collective ownership of the means of production, distribution and exchange”.<sup>329</sup>

Apart from the Fabians (see next section), from the 1880s until WWI, the mainspring of the labour movement were the chapel, the trade union, the municipal

council, and increasingly defectors from the Liberal Party or so-called Lib-Lab MPs. Chapel adherents mostly did not come from the upper-scale Nonconformists – most notably the Wesleyan Baptists: from the 1870s these departed en masse to join the Conservatives. This left the labour movement crowded with lower ranked Methodist leaders<sup>330</sup>, a labour aristocracy whose status in the eyes of the higher classes was declining rapidly (Hobsbawm, 1964a), a self-defeating predilection for free trade in face of the lurking rise of joint-stock companies, and a lack of credibility amongst the workers themselves.<sup>331</sup> It was not until it appeared that the employers themselves had succeed in enrolling the state on their side - with a series of anti-labour court decisions culminating in Taff Vale – that a significant section of the labour movement was convinced to take political action by forming the Labour Representation Committee in 1900.<sup>332</sup> Even then, the purpose was largely defensive (Cronin, 1988: 212).

Prior to 1900, the notion that the State could not effectively steer the private economy and that there was a rather close limit to the taxable capacity of the nation had taken on an almost mythical power. This myth was thoroughly ingrained in the presocialist and voluntarist traditions within the labour movement. Despite the fact that WWI shattered the myths by visibly increasing the State's fiscal and administrative capacity, however, the Labour Party and Trade Unions would remain wary of plans to bring about social and economic reform through state action – for example, of economic proposals put forward by Keynes and the Liberals – throughout the interwar period (Cronin, 1988: 220). In particular, compulsory national insurance for workers in certain trades had by no means been welcomed by most union leaders, whether Liberal or Socialist, who up to 1914 were far more concerned to win from employers wages high and secure enough to obviate dependence on the state than to ask the state to take over their friendly society functions (Runciman, 1993; Thane, 1984).

All in all, while suffrage reform enormously increased the working-class electorate, the Labour Party had great difficulty in developing a style capable of winning an electoral majority in the interwar period. Quickly, Labour saw its credibility undermined as a practical alternative to Conservative public minimalism and the dwindling Liberal Party. By default of a practical alternative, the ideological conservatism of crown, parliament, and nationality, coupled with a libertarian pattern of industrial relations would impede the emergence of a distinctive socialist strand of labour in England comparable with its continental counterparts. Still, the eclipse of Liberalism would assure Labour the place of main contender against Conservatism.

Not surprisingly, the ideas on economic policy coming from Edwardian Labour were hardly distinctive (Pugh, 1982: 124-125). They shared the Liberal loyalty to “free trade”, the New Liberal predilection for graduated taxation, and the Fabian dogma of “land nationalisation” to finance social reform. Before WWI, the Labour Party never accepted state ownership and state operation of industry as a general principle. Even limited forms of state control like tariffs were automatically ruled out. Almost totally distinct from Fabianism before 1914, the pre-WWI socialism of Labour was not so much economic as humanitarian and fraternal, owing its inspiration as much to Christianity as to politics. This led some Labour leaders to adopt a relatively pacific, Gladstonian approach to international affairs<sup>333</sup>. Other influential leaders within the party, however, advocated a lofty, public-spirited imperialism<sup>334</sup>. While the New Liberals and Fabians were forging a link between the working classes and the “social question”, Labour leaders did not see their movement as essentially working-class or preoccupied with the class struggle. In fact, most labour

leaders regarded the “rough” working classes, and in particular the impoverished slum populations as too passive and too dependent to respond to their “sophisticated” appeals. Instead, they targeted “the skilled artisan, the trade unionist, the member of the friendly society, the young workman who reads and thinks”<sup>335</sup>.

The First War was a major watershed for the Labour Party: the war had exposed previously obscured weaknesses in the British economy and industry. This has led to a new, albeit ill-defined emphasis on planning the economy. Above all, it gave a new grounding and new force to the claims for nationalisation entrenched in the new constitution. Nationalisation was to be the way both to detach the rentier from his monopolistic surplus, but also to make possible the application of science and the realisation of economies of scale blocked by private ownership. In sum, Labour's New Social Order was to a significant degree a society based on greater efficiency, secured largely by municipalisation and nationalisation, but also via regulation of private industry (Tomlinson, 1993: 23).

Up to 1920, the Labour movement was politically weak and dominated by an amalgamation of trade unions and other affiliated organisations, on which it depended for the provision of funds and electoral support. These unions were shaped by the Radical ideas of political egalitarianism and economic individualism. By the 1920s, the working-class base of the Liberal Party had eroded sufficiently to allow for a shift in the balance of power in the movement: the Labour Party gained predominance.

#### *iv) Fabians*

The emergence of the Fabians, and the competition for votes with the New Liberals triggered many of the above evolutions in the Labour Party. The Fabian Society was founded in 1884, at a time when “socialist” ideas enjoyed a revival, largely due to the realisation that English industry was losing its former dominance, and the growing awareness of the extent of urban poverty. Sidney Webb and Beatrice Potter were among the most prominent Fabian members. The influence of Sidney Webb in particular, quickly led to a view of socialism quite at odds with continental practices, where organised socialism was much stronger. In contrast with England, the continental movement had for the most part embraced Marxism, with its emphasis on the labour theory of value, capital accumulation and its correlative focus on profits. In England, on the other hand, the Fabians, drawing on a history dominated by agrarian capitalism, proposed a political economy focused on landed property, rent and population growth (Sweezy, 1949: 244-247). For the Fabians the nationalisation of landed property and rent was the ultimate road of « transition to Socialism » (Shaw, 1889: 167).<sup>336 337</sup> Though this might sound revolutionary, this does not mean that the Fabians intended the road to this end-goal to be immediate and revolutionary. Much to the contrary, the Fabians’ radicality was transposed in another version of the English doctrine of the emergence of moral force through voluntarism and laissez-faire: the Fabians emphasised “the inevitability of gradualism”<sup>338</sup> and thought highly of evolutionary reform within the law over a lengthy period of time<sup>339</sup>. In addition, the currency of Fabian ideas rose exactly at a time when the English aristocracy was shifting its investment strategy to financial assets rather than the property of land.

The influence of Fabianism on the New Liberalism at the beginning of the twentieth century was evident (cf. Hobsbawm, 1964c). So, during the Boer War, Sydney Webb advised the Liberal Roseberry to refashion his Party into a vehicle of National Efficiency<sup>340</sup>, which would clear the slums, abolish the sweated trades, eliminate efficiency

in government, restore British commercial supremacy, adopt policies of reform in housing, sanitation, poor law, and education, together with a national minimum standard of life.<sup>341</sup>

<sup>342</sup>

#### v) *Trade Unions*

The first trade unions were set up as friendly societies – often without being registered as such due to the Combination Acts. After the repeal of the Combination Acts in 1824-1825, the trade unions went their own way. The trade union movement quickly grew from about 100,000 members in 1842 to 1,200,000 in 1874. A major factor in this growth is that the movement, after the fiasco of Owen's Grand National Consolidated Union in 1834, managed to get some sense of unity, first informally through the common denominator of non-violent Nonconformity, and then formally through the Trade Union Congress of 1869. The extinction of general trade unionism after 1850 had reduced the unions to three small groups: the traditional craft unions, the textile unions and the miners' unions. These trade unions were largely confined to the so-called labour aristocracy<sup>343</sup>, for two reasons. Only the high-paid worker could afford the subscriptions as high as one shilling per week. Second, only a highly organised trade, able to restrict entry to the occupation, could maintain a high rate of wages. Not surprisingly, trade unions' total membership was small: probably under 100,000 in 1842, under a million by 1870. In fact, they represented less than 15 percent of all industrial wage-earners, earning from 30 to 140 percent more than unskilled men in the same industry. As testified by a contemporary, they were snobbish and exclusive in their attitude towards the common working people: "the artisan creed with regard to the labourers is that the latter are an inferior class and that they should be made to know and kept in their place".<sup>344</sup>

Embracing the ideal of "voluntaryism", the trade unions held aloof from general unionism and mass politics. This earned them a freedom of action unique in Europe (McKibbin, 1984: 28); especially after Disraeli's Conspiracy Act legalised the principle of trade union agreements or combinations in 1875. This legislation did not endow the trade unions with new rights; rather, it constituted a recognition of the fact that the labour aristocracy was a privileged community capable of upholding a "civilized" lifestyle akin to the one of the establishment.<sup>345</sup> Not surprisingly, this period coincides with the emergence of unionism-transcending leaders such William Newton and William Allan; for these leaders unions' focus should not only be on their members' narrow interests, but also on the large ideal of improving the universal human condition.<sup>346</sup>

By 1918, the English trade unions' membership had grown to over four million people, with an enormous influx of semi-skilled workers.<sup>347 348</sup> Yet, since large portions of labour were organised along craft lines, the Trades Union Congress remained a loose federation without much central control over its members. Still, the sheer numbers represented by the unions put them in a position of strength in their negotiations with the State about the best means to secure industrial peace during WWI and the interwar period. In the process, the British State structurally substituted negotiation with organised labour and capital for unilateral action. Yet, the internal weakness of both union and employer organisations also meant that the State could not use these associations as vehicles of industrial reorganisation, as nations with more corporatist arrangements could. In sum, England's union – and employer – associations rendered them more effective as veto groups than as positive contributors to an active industrial policy (Hall, 1987: 282).

With regards to economic policy, trade unionists such as Bevin were amongst the few during the interwar period to protest that the domestic consequences of monetary

policy came a poor fourth in the Bank of England's eyes – that is behind the defence of sterling, adherence to the gold standard and the position of London as an international financial centre (Kynaston, 2000: 197-198).

*vi) Co-operative movement*

For a history of the English co-operative movement from Owenite and Chartist to Rochdale and Christian Socialist influences, I refer to Appendix A, section 9. By the second half of the nineteenth century, the co-operative movement had become a very visible phenomenon in the great industrial cities. Even though the Rochdale Co-operators were vastly more practical than their predecessor, they had not given up entirely on the long-term purpose of creating a self-supporting Co-operative Community – they wouldn't before the mid twentieth century. A discussion ensued about what roadmap the movement should follow. This discussion in the 1850s turned into a struggle between, on the one hand, the “federalists” – nonconformist liberal radicals in the northern part of England advocating federal wholesaling, and, on the other hand, the “individualists” – Anglican Christian Socialists<sup>349</sup> in the southern part of the country promoting producer co-operation.<sup>350 351</sup> The notion “federalist” denoted a preference for a Wholesale department that would own and control all productive societies, managing them on a profit-making basis and turning all of the benefits over to the retail stores in the form of a dividend. “Individualists”, for their part, were those who sought to bestow on the co-operative workshops the same semi-autonomous position as enjoyed by co-operative stores. While individualists accused the federalists of totally subordinating production to consumption, the federalists in turn argued that the individualists were advocating the multiplication of industrial partnerships and individualistic, competing workshops. Further, the individualists would deny the consumer his rightful profits by establishing a myriad of joint-stock companies.

The accusations of both camps were misleading.<sup>352</sup> So, one of the most prominent individualists, the Christian Socialist Neale, advocated as much the setting up of retail stores and a wholesale department as the establishment of a people's bank. In addition, the “individualists” were strongly in favour of profit-sharing amongst the workers. Likewise, many prominent federalists until the 1880s were as much in favour of co-operative consumption as co-operative production. What is more, both individualists and federalists held the same views on two important points. First, they agreed with Robert Owen's creed that establishing the Co-operative Commonwealth would not be viable through fostering antagonism based on class.<sup>353</sup> Second, they both advocated the view that Co-operators in a first instance should adhere to the prices fixed in the open market; when the Co-operative movement would have grown big enough, the superiority of Co-operation vis a vis Competition would automatically ensue. More implicit differences made that the antagonism between both parties grew to exaggerated proportions. The northern co-operators saw free trade as the embodiment of their independence; they adopted the liberal rhetoric of a “free market” and its moral implications for all spheres of life as an antidote to landlords' authoritarianism and paternalism (Coats, 1972: 133). Closely allied to the trade unions, they saw the co-operative movement not so much as a means of emancipation of the whole working class, but more as a means to safeguard a “free lifestyle” for all those capable of upholding a certain standard of independence and self-help. The southern co-operators, on the other hand, while increasingly being branded a “junta” within the movement, had more paternalistic motivations as they targeted the emancipation of the whole working class, and especially the worst-off. They were aloof of

the “egotism“ and urge for independence of the trade unions, because the restrictive practices of the unions tended to lower the status of the working population as a whole by keeping the unskilled from bettering their position (Backstrom, 1974: 42-43).

Though most of them were not allowed to vote until the 1867 Reform Act and beyond, northern Co-operative leaders clearly favoured the radical stream of Liberalism and the principle of voluntarism – a support they were able to make felt locally. The Christian Socialist leaders in the south, on the other hand, were more inclined to favour the Conservatives and the principles of Anglican democracy and voluntarism. What group made most impact in the field of politics, more particularly concerning the legal status of Co-operation? The legal troubles of Co-operation were due to the deficient state of the law in relation to associations in general, and associations engaged in trading or productive ventures in particular. After the victory of the Anti-corn league and the defeat of Chartism, a Whig-Liberal-Radical alliance provided almost unbroken parliamentary majorities from 1846 to 1874 (Hobsbawm, 1964b: 260). This alliance - backed up by Nonconformist business entrepreneurs who were trying to remove the obstacles to their participation in national life through the Liberal Party (Pugh, 2002: 67) – favoured a form of politics which excluded the market as a space of contestation between working-class labour and upper-class capital (cf. McKibbin, 1984). Co-operatives did not put this preference for a *laissez-faire vis a vis* the market in danger; their leaders did not see the market as a politicised enemy, but as a moral friend of “voluntarism”. Favouring a *laissez-faire vis a vis* market organisations, and scared off by the union of engineers’ attempt to defeat employers in a lock-out by embarking on Co-operative production, the Liberal government did not make any provisions to get Co-operatives out of their legal limbo. Favouring a *laissez-faire style*, and very much organised on a local basis, Northern Co-operators were not asking explicitly for such provisions either.

Due to Christian Socialist lobbying the new Conservative government in 1852 placed the first Industrial and Provident Societies Act, specifically designed to meet the needs of Co-operatives, on the Statute Book. The Christian Socialists included skilled legal draftsmen – Ludlow, Hughes and Neale – and had influential friends in Parliament. Apart from the legal competence of the Christian Socialists, why did Conservatives decide to support the I & P Act? In fact, in contrast with early Trade Unionism<sup>354</sup>, which suffered under both Common and Statute Law from deliberate oppression, the legal disabilities early Co-operatives were suffering of were not the result of any coordinated, deliberate attempt to hamper their growth. This was even more true from 1852 on, when the connection between Co-operation and Trade Unionism officially became less close. Conservatives<sup>355</sup>, for their part, feared most the prospect of class conflict in an industrializing society. Representing order and stability, authority and the High Church, Conservatives were anxious not to be drawn into a competition for votes by appeasement of material demands by the Liberal Party – which presented itself as the party of progress and reform, of the Low Church and Dissent. Since Co-operators generally were not involved in politics and focused on moral improvement rather than material demands from the State, Conservatives did not see Co-operatives as a threat.

In the 1870s, a Joint Parliamentary Committee was set up to act as a watchdog on parliamentary activities. While the Christian Socialists’ Co-operative Union urged direct parliamentary representation, Co-operative societies would not commit funds. The advocates of an old version of neutrality in the Co-operative movement were still in the ascendant on the eve of WWI (Adams, 1987: 52-54). The national leadership of the Co-

operative Union was making repeated attempts to drag a largely indifferent and even hostile membership into closer alliance with the Labour party and the trade unions.<sup>356</sup> Following the dire experiences of WWI, during which Co-operatives suffered disproportionately due to their underrepresentation in various governmental distribution committees and draft tribunals, a motion in favour of direct national and local representation was finally approved in 1917. The Co-operative Party was born.

Because an independent Co-operative Party was too small to have an impact in Parliament, safety in numbers was sought through an alliance with the Labour Party: since 1927, the Co-operative and Labour parties have an agreement not to compete for votes and to put forward a number of Labour Co-operative candidates. The rise of Labour's currency amongst co-operators was most helped by political-economic changes in post-WWI England. The old labour aristocracy that was so prevalent in the Co-operative movement, began to be cut off not only from the managerial and small-master class with whom it had merged, but also from the vastly expanded white-collared "professionals", a new and politically Conservative labour aristocracy (Hobsbawm, 1964b: 274-275). Another explanation for the dramatic rise of Labour's stock amongst co-operators, is the changed experience of co-operative political activity through direct representation in the years between 1917 and 1921 (Adams, 1987: 49, 53, 64). By the early 1920s, the Labour Party, Trade Unions and Co-operatives were represented as the three collectivist pillars standing together in opposition to an "unholy alliance of Liberals, Tories, landlords and capitalists, united to make common cause against the workers and uphold the system of plunder and privilege"<sup>357</sup>. Still, when the Co-operative movement turned to the labour movement for political support, the ambivalence within labour towards the state meant that neither the Labour party nor the Unions were wholeheartedly in favour of the extension of state activity wrought by the war and envisioned by many as the basis of reconstruction.<sup>358</sup>

## 7.2.2 Economic organisations

### *i) Bank of England*

By the beginning of the nineteenth century, the Bank of England was at the heart of the English financial system. Even country bankers who were not yet members of the Clearing House, or did not deposit their reserves with London agents – private bankers and bill brokers, were already developing the habit of keeping those reserves with the Bank of England (Thomas, 1934: 19-20). By 1812 a striking 75 percent of the £33 million in capital held by 1732 banks in England was in the Bank of England (Colquhoun, 1815: 80-81). Still, the Bank also had its share of detractors. So, after the Napoleonic Wars, English radicals – such as Thomas Paine, William Cobbett and David Ricardo – claimed that, since the Bank of England was a locus of "old corruption", it should be stripped off all note-issuing authority.<sup>359</sup> According to its critics, the Bank of England had damaged both its reputation and the prospects of maintaining its exclusive privileges by attempting to retain for itself the vast sums which were accruing to it from its functions as banker to the State and manager of the National Debt.<sup>360</sup> While these claims had failed to find support among the Tories, the attacks moved to the center of political discourse when the Whig party took power in 1830, making reforms of the Bank of England inevitable. Some of the restrictions on the formation of joint-stock companies that had existed from 1708, were repealed in 1826. Reason for this sudden enthusiasm for joint-stock companies, in particular in the guise of provincial banks, was the Bank of England's 1825 liquidity crisis. Eager to fend off claims of Old Corruption and address the problem that credit was too

concentrated in the Bank, Lord Liverpool's ministry had responded by eliminating the Bank's ability to issue £1 notes and encouraging the establishment of well-funded joint-stock banks in the provinces, which he hoped would diffuse the demand for credit in future crises (Alborn, 1998: 57). These banks should be funded on the same sound finance prescriptions: bankers should only lend on "real bills", i.e. be able to discern which bills qualified as "real" by keeping tabs on the regular habits of their customers.

In a further bid to counter claims of Old Corruption and disentangle political and economic vested interests, Peel championed the 1844 Bank Charter Act. While granting the Bank of England the national monopoly on the issue of banknotes, the Act restricted the Bank's liberties of note-issuing to its ability to convert notes in gold – a restriction which was regularly eased in times of banking crisis (Marchal and Marchal, 1977). During that same year, Peel introduced a Joint-Stock Bank Act. One important unintentional effect of the latter Act was to give a new generation of joint-stock bankers – those enamoured with principles of objective expertise and administrative efficiency – an excuse to steer away from their original direct democracy principles. The Act listed several new conditions that in effect precluded the further establishment of new small joint-stock republics operating on direct democracy principles: a minimum paid-up capital of £50,000, a minimum share price of £100, a ban on the practice of lending on the security of shares, and a requirement that banks issue monthly statements of their assets and liabilities (Collins, 1988: 72-3). By default of further "vulgar competition" for customers by new joint-stock banks, established joint-stock banks like London & Westminster could publicly side-step direct democracy principles and carry forward the growth strategies they were trying to put in practice (cf. Alborn, 1998: 114). In sum, the 1844 Joint-Stock Bank Act was a happy accident for a new – or metamorphosed – generation of joint-stock bank leaders eager to get away from the volatile mix of local politics and business of the past, and intent on administrative efficiency and large-scale growth. The practical vehicle for this shift to administrative efficiency was the inland bill of exchange, which by the mid-nineteenth century replaced the bank note as the dominant form of currency in England.

Returning to the case of the Bank of England; in spite of the restrictions imposed by Peel's 1844 Bank Charter Act, it prospered exceedingly, partly due to the increased popularity of bills of exchange rather than bank notes; to the point that, with the experiences of severe banking crises in mind – during the 1830s and from 1844 to 1866, an important minority in the City effectively lobbied for a bigger political role for the Bank of England. This support allowed the Bank to continue its close relationship with the Treasury and successive Ministries, and to function as the *de facto* controller of the Nation's paper currency and the regulator of the national credit (Thomas, 1934: 18-19). In sum, in the eyes of many, the Bank of England represented that third party, without formal allegiance to any branch of government, without which the growth of the financial structure and the development of an organised system would have been impossible (Powell, 1915). The reconstruction period after the First World War allowed the Bank of England to consolidate its independence and centrality in the financial system. In international comparisons, the Bank of England was continuously presented as more democratic than its continental counterparts: the Bank of England altogether was more effective at avoiding the "prodigal government inflations" of continental countries, where central banks were subordinated to the Treasury<sup>361</sup> On the other hand, central banking came into the forefront of economic discussions about post-war reconstruction. Stability was the keyword, especially with regards to the cash-ratios of commercial banks. To

ensure stability commercial banks ultimately could count on the Bank of England, a lender of last resort operating at interest rates of its own choice. Again, the Bank of England seemed a comparatively more effective instrument of stability. Without a doubt the long existence of a highly liquid bill market facilitated the Bank's task enormously in comparison with its continental counterparts (Sayers, 1952: xi-xiii)<sup>362</sup>: the historical continuity provided by City institutions in England was far greater than in other Western countries, even the Netherlands.<sup>363</sup>

### *ii) Savings Banks*

From the turn of the eighteenth century, Conservatives like George Rose started encouraging the setting up of special-purpose friendly societies: Savings Banks. The original purpose of Savings Banks<sup>364</sup> was to alleviate poverty by encouraging providence and thrift among the working classes<sup>365</sup>. It grew out of paternalistic efforts in the late eighteenth century, with the Society for Bettering the Condition of the Poor – founded in 1796 – representative of the movement (Horne, 1947). The savings banks that followed the lead of this Society in all kinds of guises in the next decades – “penny banks”, “Sunday banks”, “benefit banks” – however, had little success in England. The origin of a successful savings bank movement in Britain in fact was laid in Scotland, with the formation of the Ruthwell savings bank in 1810 and the Edinburgh Bank for Savings in 1813. Following these two savings banks, many hundreds other savings banks were founded in Scotland in the ensuing years. One of the reasons why the movement developed more slowly in England was that, while in Scotland Savings banks received an interest on the savings they deposited at commercial banks, this facility was not yet available in England (Cameron, 1967: 29-30). With the so-called Rose<sup>366</sup> Act of 1817, the government agreed to pay interest on deposits placed by the savings banks in a special State-guaranteed Fund. In return for this guarantee, the savings banks gave up a substantial proportion of their powers to the government-owned National Debt Commissioners (Fairlamb and Ireland, 1981: 194-195). Savings banks now became Trustee Savings Banks (TSBs)<sup>367</sup>. The 1817 Act further specified that savings were to be deposited with the Commissioners in the Fund, which would be held in custody by the Bank of England. As such, the trustee savings banks contributed to the reduction of the national debt as a counterservice for State support. Finally, the Act decreed that no trustee should receive any financial benefit from his office.

The strong paternalistic undertone of the trustee savings banks was not only demonstrated by the degree of State involvement, by also by the willingness of landowners, clergymen and merchants to lend their support as trustees or as contributors to the start-up costs of the banks. This earned the TSBs severe criticism from other friendly societies – their only real competition for working class savings during the first half of the nineteenth century. Advocates of other friendly societies accused the TSB leadership of encouraging undue parsimony among workers, making “misers” of working men and thereby discouraging them from paying their weekly club dues. The TSB leadership replied by pointing out that many friendly societies occasioned “a good deal of money spent in entertainment”, were liable to having their funds “embezzled by artful men” and faced future insolvency owing to unsound actuarial assumptions (cited in Alborn, 2002: 3). Drawing on Malthusian and Methodical images of thrift, the TSBs easily won the argument.

While in 1817 fewer than 80 savings banks existed in England and Wales – half the number of savings banks in Scotland – by the 1840s there were more than 500 savings

banks with about a million depositors, and total deposits amounting to £30 million. While the self-avowed purpose of TSBs was to encourage providence and thrift amongst the poorest workers, a majority of depositors were members of the lower middle class: shopkeepers, relatively better-off artisans, tradesmen and domestic servants (Cameron, 1967: 30; Gosden, 1961: 136-137). Because of their connection with government finance, the TSBs could not contribute directly to the formation of a working man industrial capital. Membership in savings banks fluctuated with the business cycle over the following three decades, passing one million in 1844 . By then over £25m in savings bank deposits had been invested in the National Debt. As investment vehicles for the rising middle class, public trust in the banks remained high through the late-1840s. Nearly all the banks that formed up to that point were on the "trustee" model, whereby middle-class volunteers (often local clergymen) acted as trustees and managers in a part-time capacity.

During the period 1848 to 1850, savings banks experienced a series of scandals. It became public that more than £229,000 in deposits had been embezzled by official trustees in several savings banks across England and Ireland. Hardest hit were the members of the Rochdale bank: more than two-thirds of their £100,000 in life savings had been stolen and mostly spent by the actuary, George Howarth, before his death in 1849 (Gosden, 1961: 222-25). In 1861, William Gladstone decided to combat the public's failing trust in the trustee banks. He argued that the State was best positioned to operate a "working man's bank"; in 1861 the Post Office Savings Bank was founded. Because postal officials were more tightly supervised than local volunteers, and since the thousands of post offices spread over Britain made it easier than ever for the public to deposit and withdraw money, the public legitimacy of the Post Office Savings Bank was guaranteed.

### *iii) Commercial banks*

Before the advent of joint-stock banks, private and overseas banks dominated the banking scene. These latter banks' business had evolved gradually, by virtue of fit-of-absentmindedness really, from an original predominant focus on trading. For instance Barclays' private banking business grew up in the country districts of England, carried on by successful traders who had correspondents in London. In coordination with other associations of traders, the Barclays set up a Clearing House system by which transactions were made possible between the country agents and a London bank without transporting cash. English merchants in the colonies gradually developed into overseas bankers in much the same fashion, through the bill of lading on London, which became the most valued form of international currency.<sup>368 369</sup>

Joint-stock banks were amongst the first joint-stock companies to be established in England, starting from the 1820s. As regional suppliers of credit to industry and trade, English joint-stock banks shared many of the assumptions of friendly societies, most notably by acting as a "subscriber democracy" and keeping a large overlap between borrowers and shareholders (Alborn, 1998: 5, 65-66, 85). Where did this emphasis on direct democracy in joint-stock banking come from? Following the vitriolic attack of liberals on the "old corruption" and the lack of accountability of the Bank of England, a debate raged at the highest level about whether the Bank of England should remain a vehicle of "virtual" representation of popular opinion, or rather would have to be decomposed in a series of institutions of direct representation. Joint-stock bankers drew on this critique to present themselves as "direct representatives of the people". Joint-stock bankers claimed they would not deal on the virtual and patronising basis of upper class "honour", but on the clear and present basis of rules that would not be altered "for rich or

poor»<sup>370</sup>. To ensure their success they tapped into emerging middle-class associations such as reading societies and stock companies, which had emerged as early as the late eighteenth century.

The English system of joint-stock banking was very much in its infancy in the period 1826-1832, as it was subjected to open hostility from the bank of England and from the established private bankers. These last parties did not hesitate to frighten people from becoming either shareholders in or customers of the new institutions (Thomas, 1934: 94).<sup>371</sup> Joint-stock companies remained unincorporated and had to face the uncertainties of unlimited investors' liability and non-transferability of shares up to well into the mid-nineteenth century. While some joint-stock companies such as the Bank of England and the East India Company had long been granted legal permission, others, such as by default of de jure legitimacy, cultivated the notion of "public utility" to at least gain de facto legitimacy (Pearson, 2002: 6)<sup>372</sup>. With the expansion of industry and commerce, however, the need for new organisational forms able to carry large-scale operations in sectors such as the railways became particularly pressing. The legislation of 1844, 1855, 1856<sup>373</sup> and 1862<sup>374 375</sup> finally catered to these needs (Gamble and Kelly, 2000a: 28-29)<sup>376</sup>.

Cottrell (1980) demonstrated that country joint-stock banks developed close relationships with local businesses, rooted in close communal ties, interlocking directorships and the mutual benefits arising from a prosperous local economy. In many cases, bankers and industrialists were the same people. The advances were often small-scale and short-term, but in practice were easily converted into long-term loans. Banks like Lloyds often began by offering temporary advances to firms. As confidence grew between both parties, a system of rolled-over advances – both in volume and duration – soon became established between both parties (Sayers, 1957: 95-96). This actually endangered the stability of banks who became habitually involved in lending to industry (Cottrell, 1980). In effect, the banking crisis of 1878 – witnessing the spectacular crash of the City of Glasgow Bank – was attributed « directly to the banks becoming too closely identified with local firms and over-lending as these firms attempted to expand ». This crisis forced bankers to re-appraise their proposition. What private bankers considered « vulgar competition » was slowly becoming a thing of the past<sup>377</sup>. Private and joint-stock banks alike increasingly focused on the relatively safe profits available in international finance - overseas markets, and gradually withdrew from industrial finance. To further rationalise their business, they followed the spirit of the time and engaged in an amalgamation boom which heralded the rise of the Big Five national clearing banks at the end of the nineteenth century. Private and joint-stock banks merged and set their headquarters in London. By 1917, two thirds of the resources of the banking system in England and Wales were concentrated in the five major clearers<sup>378</sup> (Barclays<sup>379</sup>, Lloyds<sup>380</sup>, Midland, National Provincial and Westminster) and the number of joint-stock banks fell from 109 in 1886 to 38 in 1914 (Collins, 1989 ; Kennedy, 1976: 160). This merger movement reduced the banks' propensity to lend. Centralisation and the widespread development of branch banking meant that much of the local feel and commitment to the local economy was lost, although geographical concentration of branches ensured that this persisted to some extent. Interestingly, joint-stock clearers were not considered a core part of the City until the consolidation of the amalgamation movement just before WWI (Ross, 1989: 32-34).

#### *iv) Building Societies*

In face of the large migration influx to new industrial areas such as Birmingham and Manchester from the end of the eighteenth century on, building societies emerged

from the friendly society movement as providers of a solution to the lack of housing for urban immigrants. Like Co-operatives, Building Societies appealed mostly to the better-off of a nonconformist signature<sup>381</sup>. Up to 1845, most building societies were of a “terminating” nature: their purpose was to raise subscriptions of members and allocate shares to members from accumulated funds until all members were serviced and the society could be terminated.<sup>382</sup> Building societies started shaking off their purported roots with the working class as soon as the mid-nineteenth century, concurrent with the joint-stock banks’ riddance of their “direct democracy” roots. The development of “permanent” building societies, in which the rigid tie between investors and borrowers typical of the terminating society system was broken, enabled this movement. As investors could now join at any time and withdraw money at will, the character of the societies changed from self-help vehicles to agencies for the investment of capital.

By the end of the nineteenth century, the activities of permanent building societies had become almost indistinguishable from joint-stock banks. In the beginning of the 1870s – the heydays of laissez-faire policy – Building Societies of a permanent character were not only criticised for failing to provide members with the same rights as other friendly societies. Their policy of renting houses rather than building them was in danger of discrediting the whole concept of a Building Society. On initiative of the Home Secretary Bruce, the reforming Liberal government headed by Gladstone, set up a Royal Commission to investigate what corporate status building societies should receive. Despite pressures from the Building Society Association, the “union” of building societies, Gladstone’s government, on the basis of the Commission’s report, decided that if building societies wished to have the privileges and protection granted to such mutual associations as friendly, co-operative and provident societies, they should be prepared to accept the same degree of public supervision by the Registrar, and grant the same rights to members. This, however, was unacceptable to the Building Society Association (BSA), which was suspicious of the reforming Liberal Government’s intentions. In face of this resistance, the government prepared a Bill which provided that “all Building Societies should become joint stock companies and be subject to the provisions of the Companies Act”. However, the Building Societies stood increasingly united in their Association, and the Association successfully formed a united front with Conservative backbenchers, resulting in an alternative Bill of their own. As a result, the parliamentary Bill was successfully opposed. Fearing another round of parliamentary hostility, the Building Societies expressed their wish that a “new tribe of treasury officials” would come and replace Gladstonian Finance (Cleary, 1965: 93-97).

The BSA was served hand and foot. After the parliamentary defeat of Gladstone in 1874, a new Royal Commission was set up by Assheton Cross, Home Secretary in Disraeli’s government administration, and nota bene sponsor of the Building Association’s proposals in earlier Commission sessions. Not surprisingly, this commission came to entirely different conclusions. The Commission reported that there were two main differences between building societies and public limited joint-stock banks. On the one hand, building societies confined their investments mainly to property; the security of investment provided by property made it possible for the building societies to lend for much longer terms than banks. On the other hand, building societies were, like other friendly societies, founded on membership rather than, like companies, on capital. Instead of a vehicle for “those who seek to make capital”, building societies were seen as a vehicle for “those who seek, having made it [capital], to use it”. What is more, the Royal

Commission judged that “originating with the working class they [building societies] must have had a great influence in training that class in business habits. There is no reason... why the law should look upon them with disfavour” (cited in Cleary, 1965: 91). Building societies’ distinct corporate status was reaffirmed in 1874 through the passing of a new Building Societies Act. While marking them off from commercial banks, this Act provided building societies a measure of continuity with their friendly society past.

v) *Co-operative Bank*

Though the Co-operatives of the Victorian movement in a first instance were retail shops<sup>383</sup>, they had to compete for funds with friendly societies such as savings banks. Indeed, by deferring refunds to the end of the year, and by paying dividends in proportion to members’ payments, one of the attractions of the retail Co-operatives was that it also served as a working-class savings agency. In 1849 the earlier established Rochdale Savings Bank failed due to fraud of the trustees. After this failure, the Rochdale co-operative effectively was left as the best working-class savings institution in town. This helps explain why the Rochdale Co-operative by 1850 was larger than other Victorian co-operatives.

The question of a co-operative bank first was taken up in the 1850s in the co-operative movement. During this decade the growth in number and size of retail societies began to become problematic in terms of cash-management. For instance, the treasurer of the Hazel Grove Society was reported to stash the cash under his care as far underneath a board of the bedroom floor as possible (Bonner, 1970: 337). It is the Christian Socialist faction that first brought up the banking issue officially, in a conference organised in 1852. Yet, co-operators distrusted banks because they felt “they were not for the likes of us”<sup>384</sup>. Still, retail societies increasingly discussed the need for a bank of their own. In 1870, J.M. Ludlow, a leading Christian Socialist – later to become Registrar of Friendly Societies – stated at a banking conference held at Bury (Lancaster): “During all the late period of commercial distress or slackness, Co-operative Societies have either kept their money, not specifically invested, in their own hands, or at a Bank... it is certain that every pound thus locked up represents a dead loss of interest to the society in question... [especially] during a period of depressed trade and general straitness. On the other hand, all the money kept in Banks represents a direct payment by the Co-operative to the non-Co-operative world... With adequate Banking accommodation in the Co-operative movement, the dead loss... should have been turned into interest for the hoarders, profit to the movement generally”<sup>385 386</sup>. In 1871 a Parliamentary Bill was passed – due to the influence of Neale and Ludlow – enabling Co-operative societies to deal in land buildings with little risk, and lifting many restrictions on buying, selling and mortgaging. As a result, the bigger societies undertook extensive building projects: cottages, cotton and corn mills were erected on a large scale. The rush of capital development accompanying this expansion finally turned the demands for a co-operative bank in reality.

The Christian Socialists associated the banking dispute with the wider question of creating a more effective Central Board. What they wanted was to unite all working-class institutions – savings banks, trade unions, friendly societies, co-operatives, industrial partnerships – in one co-operative movement via the agency of the Central Board. Christian Socialists like Neale and Ludlow wanted to establish a separate bank, open to the patronage of all labour organisations. The purpose of this People’s Bank would be to draw together the “accumulated resources of the industrial population into a great federative centre.”<sup>387</sup> While being cast in the role of individualists, this last statement clearly shows

how the Christian Socialists were as federative as the Co-operative Wholesale Society.<sup>388</sup> The main difference was that the Christian Socialists focused on profit-sharing and common ownership rather than on individual shareholding and profit dividends. To achieve their purpose, the Christian Socialists tried to manoeuvre the Congress and the Central Board into a position of legislative authority within the Co-operative Movement. So, the strange habit took form in the movement that the leaders of the Central Board enunciated the merits of profitsharing and a separate bank in the annual congresses, while the CWS-directors like Mitchell regarded the Board and the Congresses as a nullity whose decisions they refused to implement because they would be adverse to the Movement's business interests. This tendency was confirmed when the CWS decided to set up a "Loan and Deposit Department" under its own directorship and not as a separate bank.

Though the Christian Socialists kept advocating the idea of a separate Co-operative Bank in the ensuing years, their influence had been irrevocably broken, as had already become clear in 1875 with the CWS decision to abolish any practice of profit-sharing in its departments.<sup>389 390</sup> As such, the status of the Loan and Deposit Department remained undisputed. Instead of targeting the unification of the entire working-class beyond the CWS, the purpose of the Department was now narrowly defined as a support for the CWS in servicing the needs of the nationwide co-operative retail societies (Fairlamb and Ireland, 1981: 201). In 1876 a consolidating and amending Industrial and Provident Societies Act removed the ban on banking by registered societies: the Loan and Deposit Department could now also officially be called the CWS Bank(ing Department)<sup>391</sup>.

In 1893, Henry Wolff, president of the International Co-operative Alliance reflected on the lack of success of the Co-operative Bank (Wolff, 1893: 242)<sup>392</sup>: "In describing how in Germany alone some £150,000,000 a year was raised by credit co-operatives – equivalent to some £120,000,000 a year by the standard of population of Britain, he noted that co-operative banking not only meant "the democratisation of credit", but more fundamentally should be aimed at "the democratisation of production". Considering that in the English part of Britain the Co-operative Bank raised a mere £605,623 in 1892, Wolff promoted the foundation of a People's Bank in England similar to the ones in Germany. He claimed that an English People's Bank would not only provide the small sums wanted by English workers but also implant habits of thrift and carefulness in them, so as to allow them to "rise up higher in the scale". Subsequently he analysed the difficulties of transplanting the German model to England. He acknowledged that England lacks the "small agricultural claimants" that Germany has, but also emphasized that a People's Bank could have the same productive virtues for urban workers who want to save money or pool working capital". Yet, as Wolff pointed out: "our whole country is more commercially organised", "money is cheaper in the market and more plentiful in poor folk's pockets", the entire banking apparatus is "well perfected and spread out over the whole country". Furthermore, England had "no 3½ and 3¾ per cent Savings Banks to compete with" and the number of Friendly Societies was more numerous and more generally supported in England than in any other country (Wolff, 1893: 241-247).<sup>393</sup> While a few People's Banks were initiated in England, they all proved to be shortlived. So, the Industrial Bank in Newcastle-upon-Tyne already collapsed in 1876, the Manchester-based "The People's Bank" and "The Pioneer Mutual Banking Society" stopped their operations in respectively 1912 and 1918, and the London-based "The National Co-operative Bank" and "The International Co-operative Bank Limited" in 1921. In sum,

many calls for the democratisation of banking notwithstanding, People Banking in England remained an illusion.

### **7.3 Firms' strategic positions in new settlements (phase 3)**

#### **7.3.1 Emergence of democratic settlement**

##### *a) Voluntaryism and the return of London*

As a result of the discrediting of the “old abuses” of chartered companies such as the Bank of England and the East India Company, the majority view in English popular opinion by the mid-nineteenth century was that the small, provincial firm organized on the basis of principles of direct subscriber democracy rather than State-delegated authority was the best possible vehicle of democratisation (Gamble and Kelly, 2000a: 33). This represented a triumph for a new form of voluntarism: nonconformist “voluntaryism” (see page 128). The landed establishment in the home counties grudgingly accepted this evolution; rather than making religious and political concessions, it preferred to deflect democratic grievances to the realm of economic competition. Their adaptation soon paid off: the worker movement joined the middle class liberals in a reformist movement that only obtained minimal efforts in the field of social legislation. Even so, it is the very introduction of these minimum social reforms that gradually took the initiative in popular opinion away from provincial movements, in favour of a stronger central government apparatus based in London. This “Londonising” trend had started as early as the 1830s and 1840s, and was triggered by different dynamics. First, with the introduction of the New Poor Law of 1834 and the Public Health Act of 1848, a beginning had been made of centralised social reform which required detailed administration by a central government and civil service. Second, this centralisation trend accelerated quickly at the end of the nineteenth century, when increasing geopolitical competition called for more social reform and economic planning at home. Finally, as I shall elaborate in the next section, Whiggish Liberal and Fabian leaders were keen to include more and more people in a centralised suffrage system, so as to gain control over “whimsical” popular opinion in the provinces. In other words, the enfranchisement of the masses was not expected to produce an intensification of movement politics based upon an active popular opinion; on the contrary, it was expected to lead to a strengthening of the power of Government at the centre (Read, 1964: 207-208).

The 1870s and 1880s were an age of catastrophe for Western agriculture: in Europe because of the flood of cheap food imports, in the new overseas producing areas, because of the glut in output and the rapid fall in prices. English farming was all the more vulnerable, because it had expanded its traditional and least competitive products, the basic bread grains – and especially wheat. The Great Depression therefore faced both English farming and the landed interest with an acute crisis. Since it proved to be impossible to shut out the competitive outside world in light of the overwhelming pressures for free trade in England, it could only adjust itself to the loss of its natural monopoly (Hobsbawm, 1968: 167). With its rent rolls falling, the aristocracy was looking for a new investment strategy but also alternative sources of income. Both needs brought them into close and continuous contact with the City, which offered well-paid, light-duty jobs as well as investment portfolios to suit every taste and pocket (Kynaston, 1994: 381).

The 1870s and 1880s witnessed the decline of nonconformist “voluntaryism” – geared towards industrial self-sufficiency in the provinces, and the emergence of imperial voluntarism – centered in a class society, and based on the monetary priorities of the world’s banker, the City of London. This decline was largely due to geopolitical dynamics, in particular the emergence of nationalism and protectionism as a powerful force on the Western stage, and the need for the State, civic groups and business leaders to redefine their priorities. English nonconformists were not able to seize the opportunity to build a multi-ethnic and multi-regional English nation in this period – in the same way as their Dutch counterparts were able to. The question is whether this was even a case of missed opportunity; for the reality was that English nationalism was still seen as an archaic and irrelevant aspiration in face of an already established British patriotism that seemed to serve everyone’s needs far better.

**b) *British, not English***

There were two main reasons why Britishness appeared to serve provincial champions’ needs better than Englishness. First, most of the battles in England about the desirability of market changes had been fought before the appearance of big business and a class society: during the heydays of Cobden’s and Mallet’s cosmopolitan Pax Britannica, when small provincial industrialists, aspirations of a classless society and genuine free trade still dominated the picture. Nevertheless, it can be argued that many working and lower middle class representatives suffered a “fit of absence of mind” when imperial and monetary business priorities gradually took over from the turn of the twentieth century onwards.<sup>394</sup> Apparently, the satisfaction with the status-quo amongst small and big business, finance and industry leaders was important enough to allow the organic integration of all these groups around the key notions of monetarism, neutrality and voluntarism (cf. Freyer, 1992a: 13-14). Enthralled by the populist utopia that the extension of the suffrage would lead to a collectivist, classless society (Joyce, 1994), these representatives by and large did not see that the shift from provincial to imperial voluntarism also involved a shift from Nonconformist classless aspirations to Anglican “class” attitudes. Apart from the mirage provide by the extended suffrage, the deceptive ending of religious struggles by Gladstone was the other cause of this myopia. In reality, attitudes of secular Anglicanism soon would fill the void of religious struggle. As noted in chapter 4, secular Anglicanism denotes the historical English habit to induce cooperation by discouraging extremity of beliefs and feelings in the name of national concord. It resurfaced with great vigour from the 1870s onwards, when the British empire faced new geopolitical threats. The spread of attitudes of secular Anglicanism in the Midlands and the Northern parts of the country through educational institutions, precipitated the decline of nonconformist faith.<sup>395 396</sup>

A second reason why Britishness was more popular than Englishness is that, with the cosmopolitanism of people like Cobden and Mallet defeated, it became more and more clear that the British establishment’s attachment to “free trade” was selective and focused on providing distinct national advantages – most notably cheap food and sugar – to all English classes. This explains why Tariff Reformers’ grievances about the sacrificing of national interests in favour of cosmopolitan capital in the City of London cut very little ice (Howe, 2002: 96).

**c) *Empire, class and the tradition of neutrality***

The shift from nonconformist voluntaryism to imperial voluntarism meant that a clash of economic classes loomed large again. With the co-existence of revolutions in

Ireland, Germany, Russia, Austria-Hungary and Turkey, fears of a socialist revolution soared. The Boer War and the approach to WWI laid bare major deficiencies in domestic economic policy: impoverished workingmen made undernourished mass armies, British industry and management was not up to the challenge of a mass war economy, and the minimalist state apparatus was not able to mobilise the financial means to tackle these problems of “national efficiency”. The State apparatus and its ideological and financial basis, gradually expanded to tackle this threat through more active intervention.<sup>397</sup> Anxious to avoid overextension, however, the government was keen to devolve as much responsibility as possible to civic grassroot groups and firms. But of course, this was nothing new: Gladstone’s policy had been the same.

All in all, the emergence of imperial priorities significantly reduced social mobility and increased income inequality between the English provinces.<sup>398</sup> Stuck in the successes and concessions of the past, industrial and other provincial representatives did not argue for the need to counterbalance the nefast effects of these new priorities with a more English, provincial nationalism – for instance through the institution of well-subsidised, non-imperial, educational institutions in the English provinces. Rather, they left it to the financial and upper class elites to infuse educational and civil servant attitudes with an imperial, British character. The result of all this was the institution of unnecessarily sharp distinction between classes: the distinction between the realms of necessity and freedom – respectively the domains of lower-class life and physical labor, and upper-class life and politics – would prove hard to eradicate in the twentieth century (cf. Ezrahi, 1990: 163).<sup>399</sup>

What mode of cooperation emerged as the main vehicle of consensual democratisation in England? The introduction of Gladstonian “orthodox” finance<sup>400</sup>, the powerful ethos of the Treasury and the administrative continuity of the civil service – recruited mainly from elite public schools – guaranteed the ascendance of the neutrality principle as the main consensus principle. The neutrality principle reemerged from the taxation and civil service reforms of the late nineteenth century, and as a response to increasing class strife. The principle became entirely institutionalised in the first decades of the twentieth century, when Conservatives promoted the Treasury as an institutional bulwark against “populist” Liberal or Labour demands<sup>401</sup>. The neutrality principled entailed that the State should never be seen as the prisoner of any particular interest, whether the City of London concerned for financial stability, industrialists anxious about their competitive position, Labour and unions pressing for a capital levy, or income taxpayers demanding an end to “waste”. For instance, after WWI the Treasury and the City of London wanted to restore fiscal stability and the international soundness of the currency by maintaining taxes at much lower than wartime levels but far higher than most businessmen and many of the middle classes desired.<sup>402</sup> As a result, workers – and international financiers – lost out much less than business and industry on the government’s new tax policies.<sup>403</sup> The neutrality principle involved more than just fairness to the domestic electorate and the international financial community, however. In practice, it involved a staunch commitment to only intervene as a last recourse.<sup>404</sup> Intervention was only desirable if other more voluntary forces were not up to providing stability and distributive fairness, and the international position of the nation was in danger.<sup>405</sup> On the other hand, the Treasury and revenue departments were very concerned that the fiscal system should not be used in the interests of one class or group against another, in a way that would threaten consent and trust in the state (Daunton, 2002: 361). What is more, the

Treasury from the late nineteenth century onwards had come to the opinion that taxation ought to exert an important function in redistributing wealth (Douglas, 1999: 151). Thus, neutrality involved a positive, redistributive culture of compliance and equity which was most apparent in the restabilisation of taxation after the First World War.<sup>406</sup> As a result, the credit of the British state survived and relations with the taxpaying public were re-established with greater success than in many other countries.<sup>407</sup>

### 7.3.2 Formal evolution of the suffrage

The evolution of the suffrage in England was – as many historical evolutions there – remarkable, because it involved striking a balance between different British and English dynamics of democratisation. While the First Reform Act in 1832<sup>408</sup> was hailed by “enlightened” elites around the world as a sign of the inherent democratic superiority of the British nation, the Conservatives – more English than British patriots – would always remain suspicious of the individualisation of the suffrage. The less radical Whiggish elites also were not happy about the trend of their time whereby legislation usually followed the demands of popular opinion. They complained that the increased power of the provinces, and especially the constituencies was undermining the independence of Members of Parliament. MPs were in danger of becoming mere delegates, dictated by constituency committees or meetings passing messages to Westminster (Bagehot, 1902: 342-343). Instead of either a variety of local popular opinions or an unpredictable mass popular opinion, Whig leaders such as Gladstone, Chamberlain and Webb preferred the dilution of popular opinion into a set of predictable, minority interests adhering to a few general principles. Knowing full well that popular opinion could not be ignored, these leaders saw its function in modern politics as being no more than the passing of a crude general election verdict every few years.<sup>409</sup>

**Table 7.3: Evolution of the suffrage in England**

<b>1832</b>	First Reform Act: voting rights extended to adult males who rented propertied land of a substantial value
<b>1867</b>	Second Reform Act: all male householders are enfranchised
<b>1884</b>	First Representation of the People Act: extension of Second Reform Act to the countryside
<b>1918</b>	Second Representation of the People Act: universal suffrage for men; women over 30 years old with a certain property can vote
<b>1928</b>	Third Representation of the People Act: women have equal voting rights to men

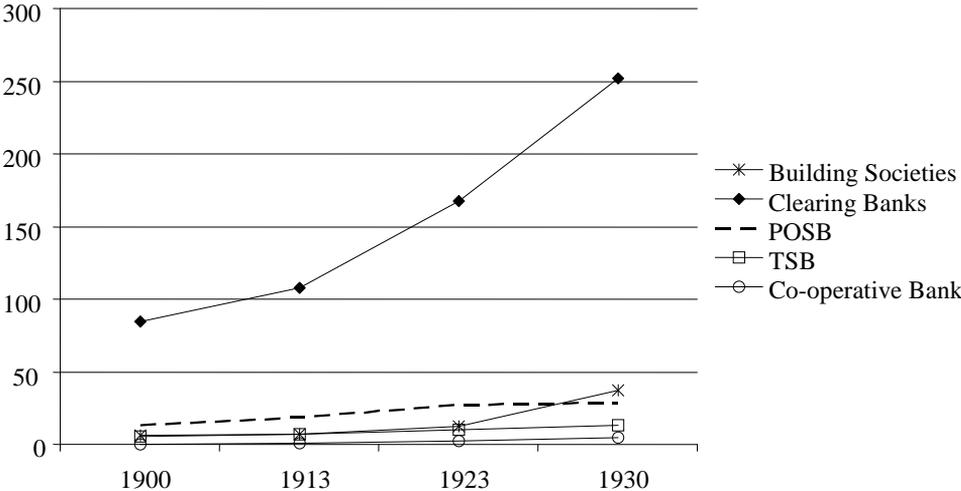
Taking advantage of this exceptional Pax Britannica period in which there seemed to be no need whatsoever for “petty” English nationalism, the Liberal Party was able to wrest further concessions from the Conservatives in 1867 and 1884. The 1880s witnessed two decisive shifts. The Conservative Party finally came to terms with the Reform and Representation Acts, having received conclusive proof that the much wider male franchise of tenants and small property-woners was not intent on undermining the established order. Also, in the 1880s the shift from British soft world influence to more nationalistic imperial interventionism became apparent. Conservatives felt much more in control in this new environment, which helps explain why the Conservative-dominated Coalition in 1918 did

not hesitate long about passing the Second Representation of the People Act. A decade later, the third and last Representation Act was also approved. Clearly, politicians of all parties felt they had little choice but to approve these acts, if they wished to avoid system-endangering protest resulting from perceived mass-radicalisation following wartime suffering and the Russian revolution. But the Conservative Party had its own reasons. Wartime participation had proven beyond any reasonable doubt that the country's lower classes were loyal to the English nation. Furthermore, Conservatives were fully aware that those disenfranchised by residential restrictions included not just working men but also upwardly-mobile professionals. Intent on becoming the representative of « middle England », Conservatives enlarged the franchise. On the other hand, to mitigate the fears of their already enfranchised voters, they continued the defense of certain criteria of superior fitness (Garrard, 2002).<sup>410 411</sup>

**7.3.3 Firms' strategies of democratisation**

In the subsequent sections, I expound how the ability with which the above variety of financial institutions has deployed the six strategies of democratisation underlies their differential growth patterns. To illustrate the discussion with some numbers, I visualise the growth of the different financial institutions in terms of respectively total amounts of deposits received and total assets accrued (figures 7.1 and 7.2). And in Tables 7.4 and 7.5, I provide more specific growth and marketshare figures over the period 1900 to 1930. Finally, Table 6.6 provides a ranking of the effectiveness with which commercial banks, building societies, savings and co-operative banks have deployed each strategy during the period 1900 to 1930.

**Figure 7.1 : Total Deposits England (1900-1930)**  
(millions of pounds)



**Table 7.4: Growth and marketshares of financial institutions** (excluding insurance companies and national savings bonds) **in terms of deposits** (£ millions)

Year	Building Societies	Clearing Banks	POSBs	TSBs	Co-operative Bank
<b>1900</b>	60	845	135	56	1.63
<b>1913</b>	66	1074	187	69	5.3
<b>1923</b>	125	1674	273	103	25
<b>1930</b>	371	2519	290	133	44
<b>Growth x</b>	<b>6.18</b>	<b>2.98</b>	<b>2.15</b>	<b>2.375</b>	<b>8.3<sup>412</sup></b>
<b>Share %</b>	<b>11</b>	<b>75</b>	<b>8.6</b>	<b>3.9</b>	<b>1.4</b>

Sources: Broadberry, 2006; Capie and Webber, 1985; Cleary, 1965; Co-operative Bank archives; Gosden, 1996; Sheppard, 1971; UK Central Statistical Office (various years)

**Table 7.5: Growth and marketshares of financial institutions** (excluding insurance companies and national savings bonds) **in terms of total assets** (£ million)

Year	Building Societies	Clearing Banks	POSBs	TSBs	Co-operative Bank*
1881	59	296	36.7	47.5	0.2
1891	67.1	470	72.9	48.3	0.6
1901	60.9	674.2	135.3	58	1.6
1911	63.5	836.3	176.6	67.2	5.3
1920	87	2097.4	267.1	93.8	10.8
1929	312.7	2059.6	285	130.1	43.6
<b>Growth x</b>	<b>5.3</b>	<b>7</b>	<b>7.8</b>	<b>2.7</b>	<b>218</b>
<b>Share %</b>	<b>11</b>	<b>73</b>	<b>10</b>	<b>4.5</b>	<b>1.5</b>

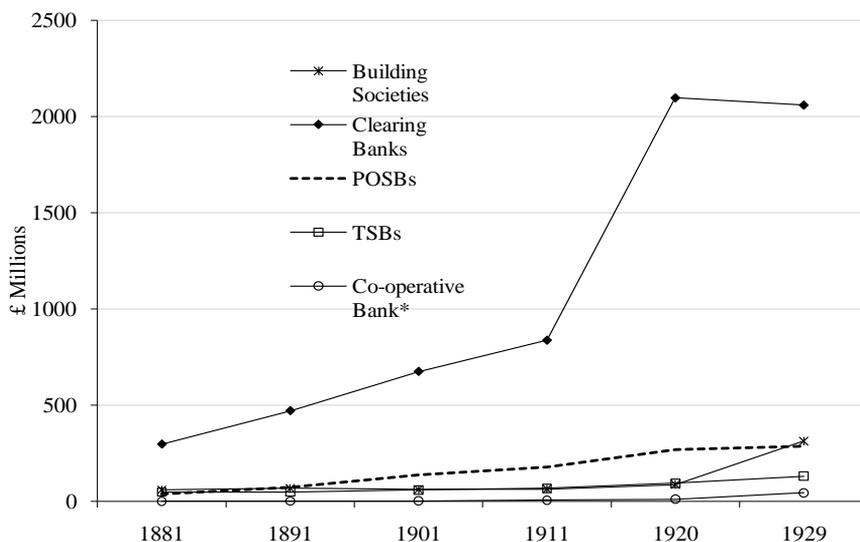
Sources: Broadberry, 2006; Capie and Webber, 1985; Cleary, 1965; Co-operative Bank Archives; Sheppard, 1971; Gosden. 1996; UK Central Statistical Office (various years)

\*Figures from private Co-operative Union archives, only available for 1882, 1892, 1902, 1912, 1919, 1929

**Table 7.6: Ranking English financial institutions per strategy of democratisation for the period 1900-1930 (1=highest, 5=lowest)**

	Commercial banks	Trustee Savings banks	Post Office Savings Bank	Co-operative bank	Building Societies
Strategy a	1	3	3	5	2
Strategy b	1	4	2	5	3
Strategy c	1	3	3	5	2
Strategy d	1	4	2	5	3
Strategy e	1	2	2	5	2
Strategy f	1	4	2	5	2

**Figure 7.2: Total Assets English Financial Institutions (1881-1929)**



## **Strategy a Help core customers fulfil their social class aspirations**

### *i) Commercial banks*

In comparison with their Dutch counterparts, English joint-stock banks emerged much earlier as champions of social and economic mobility, and completed a much more innovative cycle in the process: they started out in the 1820s as provincial champions of nonconformist industry, and slowly transformed into champions of City monetarism and Anglican voluntarism.<sup>413</sup>

From the 1820s onwards, English joint-stock banks mobilised a large proportion of the industrial ranks in the provinces for their loan and paper notes business. As if to prove their disregard for old gentlemanly arrangements, joint-stock banks started round after round of fierce and unregulated competition in the rate of interest paid.<sup>414</sup> Becoming successful obviously required more than that. By default of adequate limited liability provisions in English law, joint-stock banks associated with men of influence in their local communities.<sup>415</sup> These men were fully liable for a joint-stock bank's debts, and thus constituted a safeguard for the bank's stability.<sup>416</sup> To distinguish themselves from Old Corruption, on the other hand, most joint-stock banks presented themselves as « small republics » holding on to principles of direct subscriber democracy ; in sharp contrast with the « virtual representation » practices typical of aristocratic City institutions. For banks such as the National Provincial the desire to be independent from the City was very powerful; by establishing their own monetary circuit such banks tried to cut out London middle men – bill-brokers or agents. The philosophy here was that it would be better to substitute provincial solidarity for the waste of investing English money in foreign securities (cfr. Withers, 1933).

Joint-stock banks' shift to City finance coincided with four developments. First, the international competitiveness of English industry was declining rapidly. Foreign investors rather than local industrialists were now the main engines of growth of English finance. Second, from around 1850 inland bills of exchange replaced bank notes as the dominant form of currency in England. While initially specialised in the issuing of notes to customers, joint-stock banks adapted to this by becoming deposit-taking institutions. The shift towards bills of exchange implied that joint-stock banks needed to trade with City brokers; the shift to deposit-taking involved the obligation of relying on a lender of last resort – the Bank of England – to safeguard the security of funds.<sup>417</sup> Third, private bankers in the City were desperate to get rid of “Old Corruption” connotations and upgrade their democratic status. Fourth, the Bank of England had repeatedly criticised joint-stock banks for their overly democratic constitutions; allegedly these were to blame for the crashing of about 63 joint-stock banks between 1836 and 1838, and for subsequent crises between 1847 and 1866. As a result, even the Treasury urged joint-stock banks to improve the stature of their constituents.<sup>418</sup>

Because they were able to adapt to all the above developments, joint-stock banks managed to become the representatives of the financial and social aspirations of three important minorities in London, in chronological order: provincial industrialists, the “depositing public” and foreign investors.

### *ii) Savings Banks*

As its Dutch counterparts, the Post Office Savings Bank stepped in where the Trustee Savings Banks had left unfinished business. Still, the English POSB did more than that. The gradual retreat of the upper classes from the provincial urban centres meant that the trustees of many small TSBs ceased to operate in the 1890s, leading to both the closure

of smaller savings banks and transfers of deposits to Post Office Savings Banks - amounting to some £500,000 in 1894 and 1895. Despite this continuing haemorrhage of funds, the figures of TSBs as a whole improved in the 1890s, mainly due to structural factors beyond their influence. So, as a result of a steep drop in food prices and income inequality, real wages in the larger provincial towns and cities kept surging in the 1890s – reaching an all-time high by the beginning of 1897.<sup>419</sup> Notwithstanding the restrictions on special investment departments, especially the larger TSBs were making big strides forward, to the extent that joint-stock banks started seeing them as serious competitors for deposits.<sup>420</sup>

*iii) Building societies*

Building societies were fledgling vehicles of social and economic mobility before the 1930s. Still, initially set up to encourage thrift among the working classes, building societies from the mid 19<sup>th</sup> century recruited a growing proportion of their investors among higher income groups (Moreh, 1966: 167-168).<sup>421</sup> The shift towards higher income groups became more pronounced with each passing decade, and was influenced by several trends, most notably the shift of popular opinion from the industrial cities to London, and the declining popularity of direct subscriber democracy.

Soon, building societies became “the preserve of more substantial investors”. In 1913 shareholders with less than £100 invested accounted for 21.8% of the total share capital. The average holding in 1913 was \$78 and in 1932, £169. In 1913, 55% of shares were held by people with between £100 and £500; in 1932, 47% were held by people with between £250 and £1,000. There was also a sharp increase in the importance of large shareholders, especially those with more than £3,000.<sup>422</sup>

In table 7.7, I summarise the average amount (millions of £) due to each investor in various thrift organisations in 1930. Clearly, building societies were a class apart.

**Table 7.7: average amount due (millions of £) to each investor in 1930**

*Source: Cohen, 1933: 13*

Building Society (Share Accounts)	208
National Savings Certificates	45
P.O. Savings Bank Deposits	29
Trustee Savings Banks	33
Co-operative Trading Societies	23

*iv) Co-operative bank*

Co-operative leaders put a lot of effort in stressing what a unique vehicle of democratisation they were providing their membership with. The crucial difference between the capitalist joint-stock form of collective ownership, where shares meant individual power, and the democratic, co-operative form, was that “the extension of the cooperative method induces a great moral awakening among the shareholders” (Jackson, 1911: 441). Nevertheless, the CWS banking department turned out to be an unsuccessful vehicle of democratisation, for several reasons. First, the Co-operative leadership felt that dependence on credit was incompatible with either “respectable behaviour” or nonconformist traditions. As it was supposed to lead to prodigality and vice, credit mostly was only given to assist members through times of hardship (Johnson, 1985: 126, 138). This limited the appeal of Co-operatives to the emerging groups of entrepreneurial workers or middle ranks. In the end, much of the fragility of Co-operatives’ success was due to

self-inflicted wounds.<sup>423</sup> Most notably, the long-held belief that banking “is not for us” and credit is bad, caused serious damage to the development of the CWS banking department.<sup>424</sup>

By default of a convincing credit proposition, the Co-operative Banking department offered little economic incentive. For one, other friendly societies, building societies and savings banks already catered for the financial needs of much of the working and lower middle classes. More importantly, the dividend practice<sup>425</sup> – the flagship of the co-operative movement<sup>426</sup> which was provided by retail Co-ops at a distance from the banking department – already absorbed much of the memberships’ savings. This would not have been so worrying, if not for the reality that 75 percent of Co-op society accounts were not being entrusted to the C.W.S. Banking department in 1907.

In order to change this, the CWS Board appointed Thomas Goodwin, a man of a more typical banking profile, as Bank Manager.<sup>427</sup> Goodwin in 1910 inaugurated a deposit scheme, by which individual co-operators were able to open a deposit account with the Department through their own Co-op society. As a result, by 1927 only thirty-one small societies, representing a negligible 12,000 members, did not hold an account with the Co-operative Bank (Redfern, 1938: 403). When in 1912 the Northumberland Miners’ Association was refused accommodation by a joint stock bank during a strike, the CWS banking department promptly responded to an application for help. This increased considerably its authority amongst Trade Unionists<sup>428</sup>. After that, Goodwin decided to launch a campaign to obtain Trade Union accounts, with great success. After WWI, the number of current accounts had risen to 5,300, while total assets exceeding £10m. By 1930, the Banking Department was transacting business on 9,684 trade union accounts.<sup>429</sup> In order to facilitate further expansion, Goodwin decided to open branches in London, Newcastle-upon-Tyne and Bristol. In addition, he introduced a “Retail Society Agency System”, which allowed Co-operative Societies to act as agents for the acceptance of deposits and the encashment of cheques. Co-operative banking not only became more widely available, in many instances it became also more profitable for customers. So, when comparing deposit rates paid by London banks and the C.W.S.’ banking department from the 1920s on, it becomes clear that the latter paid on the average about 1 percent more to Co-op members. Other organisations paid an additional ½ percent on debit balances and received ½ percent less (Barou, 1932: 99-100).

In spite of all these efforts, the economic success of the CWS banking department remained disproportionately modest throughout the period.<sup>430</sup>

## **Strategy b Cater to customers of different social classes.**

### *i) Commercial banks*

Joint-stock banks were very important for bringing consensus between the social classes. Far from being the culprit of national economic decline, the highly liquid balance sheets of the English commercial banks and their adherence to strict risk-minimizing criteria in the industrial loan part of their business, contributed immensely to the comparative stability of the English financial system from the end of the nineteenth century onwards. In many ways, joint-stock banking was the ultimate vehicle of “secular Anglicanism” before WWII. Notwithstanding some vociferous attacks, this opinion was shared by most members of the public, in face of an abundance of evidence. There were to be no significant bank failures after 1878, despite the financial difficulties of 1890, 1907 and even the very troubled times of the 1930s. Undoubtedly, this stability was of great

benefit to industrial companies too (Collins and Baker, 2003: 56, 253-258). In addition, joint-stock banks historically functioned as pioneering vehicles for the national redistribution of financial means. Indeed, while most joint-stock banks for some decades remained quite local or metropolitan in scope, some banks such as the National Provincial as early as the 1830s were advocating a policy of establishing nation-wide branches, so as to redistribute riches from the wealthier to the poorest districts in England (Alborn, 1998: 91-92). These tendencies became consolidated with the amalgamation movement of joint-stock and private banks.<sup>431</sup> Started in 1890, this movement led to the formation of about twenty English joint-stock banks in 1914<sup>432</sup>. By 1914, a system of large banks with many branches had been set up; cheque payments became a widespread practice. As a result of the bank amalgamation movement, a dozen banks held two-thirds of the deposits of the country. By 1930, the “Big Five” dominated the English banking sector: the Midland, the Westminster, the National Provincial, Lloyds and Barclays. A remarkably high per centage of directors in the Big Five – especially in Lloyds<sup>433</sup> and Barclays – had a Quaker background; a smaller per centage had an outspoken Anglican or Unitarian background. By 1930, however, most directors could more readily be classified as being “secular Anglican” than denominationally outspoken or practising.

Commercial banks arguably were also the champions of “Anglican democracy”, both in terms of customer service and employee policies. Compartmentalising their services in terms of a panoply of social classes – low and high, domestic and foreign, commercial banks by the end of the nineteenth century had become a vehicle to integrate social classes. While managing to integrate most of these services. With regards to their employees, senior bank managers at firsts grudgingly had accepted the foundation of the Chartered Institute of Bankers in 1879 by a “grass-roots” movement of junior managers and bank clerks, undoubtedly because of the support of a few outspoken banking personalities. While the main objective of the Institute was to improve the bargaining and professional position of bank clerks, which had a rather low social status and low income, clerks’ aspirations and the Institute’s demands remained firmly integrated in the established norms of the time. In addition, the Institute provided a safe outlet for union aspirations at a distance from the Labour Party – from 1918 captured by the National Union of Bank Employees (NUBE).<sup>434</sup>

ii) *Savings banks*

The Post Office Savings Bank was a very successful vehicle of consensual democratisation, more than its domestic counterpart, the Trustee Savings Banks. TSBs did manage to mobilise leading citizens representative of a broad spectrum of society to act as trustees. Indeed, Savings Banks’ “Committees of Management were representative of the best and most respected members of the local community drawn from many different spheres – town councillors, lawyers, clergymen, professors, business men, shopkeepers, representatives of labour” (Horne, 1947: 354). Nevertheless, due to the occurrence of several scandals in the mid-nineteenth century about corrupted Trustees, and given the nation-wide presence of Post Office branches, the Post Office Savings Bank was widely perceived as providing superior security to the public. Soon, a number of Trustee Savings Banks in the south of England handed their business over to the Post Office Savings Bank. Nevertheless, many Trustee Savings Banks in the north and midlands remained autonomous. For Gladstone, the introduction of the Post Office Savings Bank encouraged self-help and thrift in the guise of small savings among ordinary people. For the City establishment, the Post Office Savings Bank and the Trustee Savings Banks functioned as a voluntary means to increase the commitment of the lower classes in Northern England

and the Midlands to a national banking circuit – i.e. decrease the possibility of class strife, while simultaneously increasing the liquidity of money transfers to the City of London.

*iii) Building societies*

Building societies were a relatively successful vehicle of consensual democratisation. First, building societies successfully functioned as moderators of extremity of beliefs, with their origins in the nonconformist ideology and their swift turn to secular Anglicanism. They were generally seen as much more secure investment vehicles than Trustee Savings Banks, probably because building societies increasingly adopted a permanent character, and became led by middle class professionals rather than philanthropists or working-class leaders.<sup>435</sup> Also, building societies were rather unique in that they mobilised investments for different classes of investors and borrowers: from working class to upper middle class investors, and from nonconformists in the North and Midlands to Anglicans in the South. All this made building societies an up-and-coming force of the tradition of “Anglican democracy”.<sup>436</sup>

*iv) Co-operative bank*

The CWS banking department by and large was a failed vehicle of consensual democratisation. The department could neither convincingly act as a vehicle of secular Anglicanism, nor Anglican democracy. For one, the unresolved tension between federalists and individualists meant that any attempt at championing attitudes of secular Anglicanism was doomed. The federalists, who headed the Co-operative Union in London and initiated the idea of a Co-operative Bank, had roots in Christian Socialism, i.e. a branch of the Anglican Church. The « individualist » leaders at the helm of the CWS in Manchester, by contrast, almost all participated in the nonconformist chapel life. Their Methodist or Congregationalist inspiration motivated them to reform working class manners and morals and inculcate workers with the self-discipline and self-reliance essential for successful association. Yet, many rank-and-file co-operators simply could not always maintain or afford the necessary level of enthusiasm. When their devotion wavered, as it often did, co-operative ideologues were often quick to castigate and condemn. The so-called “apathy” of the majority of members was a constant cause for complaint (Gurney, 1996: 48-49).<sup>437 438</sup> The reaction from the Co-operative leadership stood in stark contrast with the attitude of building society and joint-stock bank leaders. The latter cherished the apathy of the majority of their members/customers: it secured them sufficient revenues and provided them with the freedom to develop their preferred minority strategies.

In response to the lack of success of the CWS banking department,<sup>439</sup> John Downe, a leading co-operator, stated: “We are learning rather painfully that every £ that is not with us is against us...the capital of our co-operators ranges round £1,000,000,000. Of this about 100 millions are entrusted to the co-operative movement. There must be many co-operators backing both their own side and the other – and principally the other” (Downe, 1921: 3-4). He further noticed that, though “savings bank depositors and co-operators are the same people”, why should these people “prefer the former at 2.5 per cent interest to the store with 5 or 6 per cent?” (9). While noting the drain of resources to Savings Banks, Downe emphasised that “very largely the capital not in the co-operative movement is at some stage in its circulation, in the Joint Stock Company” (10).<sup>440</sup> In sum, the CWS banking department ignored the reality of class at its own expense: it was decisively beaten by all other financial institutions when it came to the tradition of Anglican democracy.

### **Strategy c Make State policy on economic citizenship by “fait accompli”**

#### *i) Commercial Banks*

Joint-stock banks were remarkably adept at anticipating political problems and needs in England, not only regarding calls for new joint-stock legislation, but also regarding the enlargement of the franchise and the broader issue of how to overcome distrust in the workings of a system of parliamentary democracy. The debate over the expansion of the franchise in the nineteenth and twentieth centuries paralleled discussions over bank shareholdings. There was one difference: while the franchise reforms of the nineteenth century involved a web of rules that varied from one local constituency to another, the polity model of joint-stock companies by the second half of the nineteenth century was already founded with transparent and consistent rules that granted voting rights to shareholders.

By the end of the nineteenth century, joint-stock banks had managed to become the democratic representative of three minority publics: not only local industrialists and the well-to-do depositing public, but also foreign investors. Because the Clearing House provided provincial banks with access to the foreign loan market, foreign governments – together with the depositing public and industrial debtors – became important stakeholders in joint-stock banks’ customer portfolio. Anticipating the increasing importance of the Clearing House, the six London-based joint-stock banks as early as 1854 had forced their way into the Clearing House – their membership request had been accepted after they en masse had threatened to pull all their assets out (Gregory, 1936: I, 167). More and more provincial joint-stock banks also were seeking access to the Clearing House system, often through acquisitions or mergers with private banks in London. These banks too were anticipating that access to the Clearing House system would allow them to become the representatives of the « second » national debt – the Bank of England holding the first national debt. That is, while allowing them to continue their self-imagery of « democratic republics » - the blame for the demise of direct democracy was not on them but on the new reality that economic citizenship was conditioned on participation in this new machinery of sound finance. And in the eyes of the State and political parties, joint-stock banks continued playing the role of « testing ground » for future extensions of the suffrage.

Joint-stock bankers were also very adept at anticipating the changing fortunes of the Liberal Party and the Conservative Party. Much of the joint-stock bank leadership deserted the Liberal cause in favour of the Conservative Party well before the Liberal Party had become threatening to their interests. One reason for this change in strategy was success. As joint-stock bankers now felt more part of the establishment, they heeded much more than before the criticism by the Bank of England that their organisational strategies were too democratic for their own good. Simultaneously, they were keen to stay at the forefront of new minority dynamics of democratisation. From WWI these dynamics most clearly had to do with who would be best able to contribute to the defense of the besieged British empire in general, and the world primacy of the City of London in particular. The new fit between organisational size and geopolitical opportunity structure helped joint-stock banks achieve just that.

Arguably the most conspicuous organisational innovation in the English financial sector after 1914 was the long-delayed entry of domestic commercial banks into multinational banking. Several merger and acquisitions rounds had produced a Big Five of domestic banks with a surplus of cash and investment potential. The geopolitical competition with Germany – more than economic profit rationales – induced joint-stock

banks to use their increased size and investment potential to enter multinational banking.<sup>441</sup> During the First World War, the merits of greater integration between domestic and overseas banking were much discussed in a semi-political debate about competing economically with Germany after the end of military hostilities. German multinational banking, with its closer ties between domestic and foreign banking operations, contrasted starkly with the English example: English overseas banks generally had no links with domestic banks apart from correspondence relations. While English joint-stock banks were doing just fine, English overseas banks had become more vulnerable in the post-WWI environment of political and economic instability in many overseas countries.<sup>442</sup> Overseas banks were too specialised in the finance of a few commodities produced by a few countries, and had to diversify their risks. By forming equity alliances with overseas banks and establishing subsidiaries in the Empire, joint-stock banks came to the rescue, with the full legislative and moral support of the government and parliament – but not always the Bank of England, which worried more about the stability of the domestic banking system (Jones, 1990: 139).<sup>443 444</sup>

*ii) Savings Banks*

The POSB was only marginally more successful than its Dutch counterpart in becoming a vehicle of minority democratisation. Because of government regulation on deposit rates, the Post Office Savings Bank was often running a deficit.<sup>445</sup> To avoid such a deficit, postal officials tried to attract better-off savers. The government encouraged this trend by raising the cap on annual and total deposits to £50 and £200 respectively. The Post Office Savings Bank further improved its position by following the establishment of universal elementary education in 1870, with a publicity campaign targeted to children.<sup>446</sup> In turn, Trustee Savings Banks tried to attract more lower-middle class depositors by opening special investment trusts, empowered to buy higher-yielding municipal bonds. Following the example of the Post Office Savings Bank, TSBs allied with local elementary schools to form "penny banks" (Alborn, 2002: 4-5; Brabrook, 1898; Gosden, 1961: 256-257).<sup>447</sup> TSBs also lobbied for increases in the maximum annual and total deposit levels. Urged on by the TSB Association<sup>448</sup>, in 1892 the newly elected Liberal government introduced a Bill to enlarge investment opportunities at TSBs by raising the limits on annual deposits and State bonds. The large clearing banks, which had developed out of a series of recent mergers, objected strongly to the big increase in annual ordinary account deposits at a time when they themselves were attempting to build their deposit business by borrowing ideas from thrift organisations. Despite assurances from the Chancellor of the Exchequer, the Association failed to secure the inclusion in the Bill of a clause widening the investments available to special investment departments - a clause which would have helped to accommodate the larger savings bank investors. Still, the Savings Bank Act of 1904 allowed TSBs with ordinary deposits over £200,000 to open special investment departments and to invest those funds in any security covered by the Local Government Loans Act or any loan secured on the local rates. In addition, the Act made it easier for TSBs to amalgamate. This led to a considerable expansion of the deposits in the TSB departments: from a mere £4 million in 1900 to about £15 million in 1914. Finally, because the government felt that the expansion of the TSBs in the past had been blocked by certain State policies, in 1929 a new TSB Act was passed that made provisions for loans to set up new TSBs.<sup>449</sup> The money for the loans came from the Closed Banks Fund, a fund consisting of surplus assets transferred from those TSBs which had closed with the arrival of the Post Office Savings Bank (Fairlamb and Ireland, 1981: 196).

### iii) *Building Societies*

Building Societies for a long time remained relatively low-profile vehicles of minority democratisation. This was not only due to the fact that only a very small portion of English families could afford to invest in a house. The building societies had gone through a particularly troubled period from the last quarter of the nineteenth century to WWI.<sup>450</sup>

This would all change from the 1920s onwards. The origins of this change in fortune lay much further in the past: the remarkable triple shift in building societies' allegiance away from direct to virtual democracy principles – i.e. from terminating to permanent building society principles, from nonconformist working classes to secular Anglican lower middle and middle classes, and from the Liberal Party to the Conservative Party's influence sphere. These shifts did not occur overnight, but by fit-of-absentmindedness over a long period of time. First, trapped in a Red Queen race with Labour for the "progressive" vote, Liberals' aggressive attitude towards the Building Societies Association drove the latter in the arms of the Conservatives. With the help of Conservatives, the 1874 Building Societies Act was passed, allowing building societies much more financial freedom than friendly societies in general, and Co-operatives in particular. So, permanent societies were permitted to issue small denomination "paid up" shares akin to modern ordinary shares rather than only subscription shares involving longer-term saving. In addition, building societies could borrow from depositors up to two-thirds of the sum secured by mortgages (Boddy, 1980: 7-10).<sup>451</sup> Also, in 1895 the Building Society Association reached an agreement with the government, allowing building societies to pay interest free of income tax in exchange for a composite tax payment from the societies themselves.<sup>452</sup> Largely unintentionally, and spread over many decades, this agreement would prove crucial for building societies' long-term success. Largely unintentionally, since the original intention of the arrangements was no more than to simplify the administrative procedures concerning the taxation of building society interest.<sup>453</sup> The assumption was that such simplification would not cause the Inland Revenue to lose any tax revenue.<sup>454</sup> In other words, there was not an intention to give special protection to building societies through the composite tax arrangements – since the vast majority of building society investors were small investors who were not liable to the standard rate anyway.

Yet, when income tax rates rose after WWI, building society shares and deposits became more attractive to those liable to this tax, i.e. the middle classes. More substantial investors soon became more interested in building societies' services. Some of these were people who before 1914 had invested in houses to let and who had now to find an alternative (Cleary, 1965: 189) – the Lib-Lab coalition's stance on land rentiers had effectively destroyed the private rental option in England. Building societies provided one such alternative. By 1930, the average shareholding in building societies was considerably higher than in the various popular savings institutions and close to that of the average investor in industrial securities.<sup>455</sup> As noted by Cohen (1933: 13-14): "these figures serve as a corrective to the idea that the proprietors of British industry were necessarily rich men, and the owners of the building societies necessarily poor people". In fact, building societies were becoming the preserve of neither the very rich or poor, but a cross-section of the middling ranks.

Immediately after WWII, the Board of the Inland Revenue proposed to abolish the income tax arrangements, but in 1950 the Chancellor of the Exchequer announced that

he intended to bow to the “fait accompli” and give the arrangements permanent effect and statutory sanction – especially in view of the need to stimulate housing in post-WWII England (cf. Price, 1958; BSA, 1973; BSA, 1978)

iv) *Co-operative bank*

The CWS banking department was not a very successful vehicle of minority democratisation, to put it mildly. Not only had the Co-operative movement long been denied full legal access to the banking sector, friendly society legislation, which co-operatives had to abide by, by and large amounted to a pre-emptive act of consensus politics. Although many friendly societies were established on the initiative of working people themselves, the constitutive term “friendly” and its concomitant legal restrictions effectively pre-empted any possibility of self-regulation in the name of a purpose that did not serve the interests of the establishment. With a State registry of friendly societies holding a close eye on friendly societies’ every move, escape was impossible.<sup>456</sup>

**Strategy d Translate State policy on economic citizenship**

i) *Commercial Banks*

In spite of all possible criticisms, joint-stock banks, and in particular the Big five, were key consensual vehicles of “economic citizenship”. In many ways, they led the way in ensuring that the soon to be enfranchised classes would embrace a minimum level of economic citizenship - and not disrupt the stability of the political system or diminish the effectiveness of the State. Already by the 1860s, joint-stock banks’ increasing grip on the “depositing public” – this newly enfranchised class of conservative investors – and their growth into mammoth financial institutions, convinced the Bank of England directors that if they were to maintain control of the money market and remain legitimate in the eyes of the depositing public, they should find a way to include joint-stock banks into the reserve and bill clearing system (Cassis, 1994).<sup>457</sup> Plans were soon made to turn the London Bankers’ Clearing House into a common reserve and a more inclusive agency for canceling checks (e.g. Lubbock, 1860); membership of the Clearing House had come to signify a new power-sharing relation among the elite joint-stock banks in the province and private banks in London.

By the 1890s joint-stock banks also made themselves increasingly accessible to the lower classes – the soon to be enfranchised classes. In the first phase of their existence, joint-stock banks had been happy to cede the lower class depositors to the savings banks; joint-stock banks had even supported the foundation of the Post Office Savings Bank in this regard. By 1890, however, joint-stock bank directors did not associate saving with improved thrift and social order anymore. With the suffrage extended, the nonconformist threat vanished, and the demarcation lines between classes firmly laid, the new saving habits of artisans, women and children were now seen as an untapped commercial resource. Joint-stock bankers were convinced that their superior administrative efficiency would allow them to compete for these deposits without the risk either of being stigmatised, or to experience diminishing profits.

In addition, in terms of fiscal policy, joint-stock banks manoeuvred themselves in a “position incontournable”. They secured for themselves a role of lender of last resort and pillar of State monetary policy – alongside the Bank of England – by forming a fixed deposit-rate cartel and voluntarily maintaining a more liquid asset portfolio than economically necessary. A number of factors induced joint-stock banks to adopt this “lender of last resort” role. First, they had more ready access to the City’s highly liquid and expanding money markets than other financial institutions. Second, political pressures

to hold more liquid portfolios arose from the public debate about the adequacy of cash holdings, a debate that became more animated after the two crises in 1857 and 1875.<sup>458 459</sup> The banks were gradually forced towards agreement because of national war-time financial policy, and, in 1917, the large banks agreed on maximum rates for deposits in town and country. By 1918 the deposit rate was effectively 2 per cent below Bank rate (Clegg, 1969: 167-168). Unrecognised by many observers, this in effect meant that joint-stock banks accepted to be vehicles of taxation policy; the artificially low deposit rate policy promoted by the Big Five amounted to an “implicit taxation on bank depositors” (Johnson, 1968: 137). Finally, in contrast with for instance the US, the English judiciary through the first part of the twentieth century remained committed to a “Free Trade consensus” favouring self-regulating, restrictive practices of business.<sup>460</sup> In practice, this meant that English courts remained by and large passive – “neutral” – and applied a “rule of reasonableness” with regards to cartels (Freyer, 1992a: 124, 152).<sup>461 462</sup>

ii) Savings Banks

Not surprisingly, as a State enterprise, the Post Office Savings Bank was more adept than the TSBs at turning State policy into a vehicle of consensual democratisation. Up to the 1850s, the City of London bankers had willing enough to see their funds used through the Savings Banks to reduce the national debt and the pressure for higher taxes.<sup>463 464</sup> The City also recognised savings banks as ways of spreading the values of self-help and thrift, so as to pre-empt class conflict and ensure that the English workers would remain more “individualistic” than their continental counterparts (Morgan and Sturdy, 2000: 69- 71). Yet, the deficiencies of Trustee Banks’ voluntarist principles, convinced the City bankers that a move in the direction of a Post office Bank, fully guaranteed by government was needed. The City saw such a governmental Bank as a means to achieve the political effect of attaching the masses to the side of order and law. The Post Office’ superior security would allow it to attract capital away from trade unions and friendly societies, and “end the war between capital and labour in a more natural way” (cf. Alborn, 1998: 106-107; 138-139).<sup>465</sup>

iii) Building Societies

By the 1920s, building societies were finally making their mark as vehicles of consensual democratisation. As noted by Daunton (1987: 31-32), after WWI, building societies were still only minor financial institutions, the main reason being that fewer than one in ten of British households owned the house in which they lived.<sup>466</sup> Building societies would soon become more central institutions of State policy. During and after WWI, private rented house property became a peculiarly isolated element of capital which lacked political support. Indeed, the relentless attacks of New Liberals and Fabian socialists on landed property and rent, had turned private renting into a morally repugnant form of capitalism. To fend off calls for nationalisation, Conservatives sacrificed the cause of privately rented housing in favour of a focus on home-ownership balanced by a minimum of council housing.<sup>467</sup>

Because building societies were gradually becoming the preserve of not only the working but also the middle classes, they gained a lot of support from the Conservative establishment. One of the biggest fears of the Conservative Party and its well-off constituents was that the enfranchisement of the working class « could sweep away property, decorum, the constitution » (McKibbin, 1998: 67).<sup>468</sup> The coalition government feared that it was being deserted by middle-class voters<sup>469</sup> - especially the lower middle classes – and that financial stability was in danger.<sup>470</sup> Churchill’s 1925 budget therefore

incorporated a lot of incentives to middle-class families, amongst which the encouragement of home-ownership. Building societies provided one vehicle for such incentives.

Thus, building societies gradually became vehicles of the “neutrality” principle, i.e. the principle that no class would be treated in a privileged manner, but that the market would be left to play its autonomous role in so far as this benefited all parties in the longer term. Clearly, the substitution of the “permanent” organisational form for the “terminating” form – which the BSA Act allowed, had been a crucial aid for building societies in their bid to enforce this long-term neutrality principle. The terminating form too often was characterized by a lack of funds to afford construction of enough houses; this had made investing in building societies a rather risky and unstable prospect. The permanent form allowed societies supplement funds for building houses with funds from people wanting to save, but not necessarily wanting a house. However, the ‘permanent’ form had the advantage of widening the investor base and offering a stable and relatively risk-free form of saving, while managing more efficiently the inherent conflict of interest between the groups of investor and borrower members (Cook et al., 2001; Hird, 1996).

*iv) Co-operative Bank*

With the panoply of savings banks, Post Office Banks, trade unions and friendly societies, and in view of the lack of unity in purpose between all these working-class institutions, it is not surprising that the CWS banking department was not a successful vehicle of consensual democratisation. Three path-dependencies pre-empted such an effort. First, during the first decades of its existence, the CWS Banking Department only catered services to societies and not individuals. Far from being a conscious decision, this reality was a remnant of the Christian Socialists’ predisposition to producer co-operation, the co-op store managers’ insistence on payments in cash, and the decision of the Co-operative Wholesale Society to only deliver intermediary services to the retail societies and not the members directly. Second, by default of a strong community feeling spanning the whole working class and the lower middle class, the Co-operative Wholesale Society, the savings banks, the Post Office Banks, other friendly societies and the trade unions were keen on maintaining an independent position, in which each would be responsible over her own funds. Finally, contrary to savings banks and building societies, the City establishment did not see co-operatives as trustworthy vehicles for class neutrality. It is only when the pretense of class neutrality had been firmly established in the financial world that Co-operators by law and governmental consent were allowed to fully participate in deposit and credit endeavours.

**Strategy e    Become a champion of national character**

*i) Commercial Banks*

Reading the history of English joint-stock banks is like reading the history of how British national character always trumps English national character. During the half century leading up to WWI English joint-stock banks shifted away from their roots in English “direct subscriber democracy” roots. This shift from the provinces to the City was prompted by the increasing importance of foreign and colonial customers in joint-stock banks’ portfolio: these customers obviously were not interested in the English domestic scene, but rather in the fortunes of the City of London. To legitimise their moves, clearing banks had to engage in a delicate patriotic balancing act between “world-state” and “Englishness” aspirations. Regarding the latter, clearing banks for instance used the

failure of the City of Glasgow Bank's deposit policy in 1878 to distinguish their more "conservative" lending and limited liability policy – a symbol of English soundness superior to Scottish traits of "parochialism" and "being too trusting". Simultaneously, joint-stock banks emphasised that they were the same old "corner shops", just much bigger and efficient. To back up these claims, they guaranteed that the local branches of acquired provincial banks would retain a considerable amount of autonomy. Especially Barclays bank – after its transformation into a limited liability joint-stock bank, was adept at this strategy.<sup>471</sup>

To bridge English and British nationalities, joint-stock banks increasingly presented themselves as institutions with a public mission – increasing national efficiency and guaranteeing national security, rather than mere profit-oriented private institutions. This effectively shielded the world of private finance they were now closely associated with – through their boards etc... - from democratic scrutiny. Confronted with further criticism about their lack of investment in English industrial areas, joint-stock banks pointed out they did not more to cater to the specific preferences of English depositors. Unlike continental European customers, who were willing to let banks use their savings for the benefit of national industry, English depositors tended to withdraw their deposits from any banks that pursued such a policy (cfr. Joseph, 1911: 10). This of course was not out of lack of patriotism. On the contrary, it was a sign of patriotic distinctiveness, a confirmation of the tradition of Anglican nonconformism, and of the English custom of turning to the highly liquid market of bills of exchange in London for a better return. Finally, all criticism on English joint-stock banks melted away by WWI; it had become clear that their branch deposit system served as a model for monetary authorities throughout the world (Nevin and Davis, 1970: 82).

In terms of secular Anglicanism, it had equally become clear by the early twentieth century that industrial protests were becoming counterproductive in geopolitical terms; Britain's visible trade deficit had greatly widened and the wellbeing of the national economy was increasingly dependent upon the 'invisible' earnings provided by the City.<sup>472</sup> Priorities of 'British character' and the stability of the empire eclipsed English authenticity and provincial industry; as testified by the former's prominence in both public schools<sup>473</sup> and joint-stock banks' leadership.<sup>474</sup> A majority of the English elites associated the Empire with not only material wealth, political and social stability, but also the formation of character, forged and continuously renewed by imperial struggle and duty (Tidrick, 1990).<sup>475</sup> Fearful of falling back into petty provincialism and materialism, and becoming another loser in the Darwinian struggle, some leading English bankers voluntarily considered British character more of a priority than economic profit rationales.

Thus, following the early efforts of private overseas banks, joint-stock banks became flagships of the political and monetary consolidation of the British Empire.<sup>476</sup> With the decline of the Pax Britannica, the British State had been eager to consolidate its grip on the Commonwealth markets, and preserve the unique British identity – of Anglican nonconformism. In reaction, joint-stock banks from the beginning of the twentieth century turned membership of the Clearing House into a symbol of allegiance to an imperial club – and the duty of strengthening imperial character (Mackinder, 1900: 155). In a next phase, shortly before the First World War, joint-stock banks challenged the traditional dependence on correspondent relationships. Two of the "Big Five" joint-stock banks, Lloyds<sup>477</sup> and Barclays, gradually established subsidiaries in the imperial hinterland, mainly in Australasia and Southern Africa. Most striking is that,

although profits made in the Commonwealth remained well below par, this subsidiary policy was sustained throughout the following decades (Jones, 1990: 138).<sup>478 479</sup>

*ii) Savings Banks*

Savings banks were building national character by inducing the constituent nations of Britain, in particular Scotland and England, to contribute to the greater good of the British Treasury's needs. In other words, savings banks were used to link the altogether pettier Scottish and English nationalisms to the one publically avowed nationalism – Britain. Remarkably, both the POSB and the TSBs were gradually superseded by National Certificates as a preferred vehicle of British saving (table 7.8).

**Table 7.8: Growth record of special-purpose savings institutions**

(Total assets in £ million)

(Based on Gosden, 1996: 158; Broadberry, 2006: 261)

Year	<i>Trustee Banks</i>	<i>Savings</i>	<i>Post Office Bank</i>	<i>Savings</i>	<i>National Bonds</i>	<i>Savings</i>
1911	67.2		63.5		24.8	
1920	93.8		267.1		477.8	
1929	130.1		285		552	

This was not all bad news for savings banks. Indeed, because savings banks were regarded as a main priority for the stability of the financial system, and “public finance” in particular, savings banks’ customers who acquired national savings certificates during WWI from their institutions, were entitled a 5 per cent compound interest on a tax-free basis (Horne, 1947: 310). As a result, during the period 1914-1920, the balances due to depositors in the trustee savings banks increased by 22 million and that due to depositors in the larger Post Office Savings Bank by 76 million.

*iii) Building Societies*

Different from savings banks, building societies have always been a peculiarly English rather than British phenomenon. Already in 1871 had James Higham, the Secretary of the Fourth City Mutual Building Society in London, drawn attention to the fact that, while there were over 2,000 building societies in England, very few had been established in Scotland.<sup>480</sup> This evolution would persist, with England subsuming virtually the entire building society asset base, downgrading both Scotland and Northern Ireland to a highly symbolic fringe status. Thus, building societies were vehicles of a less public, but clearly English nationalism. The Chancellor of the Exchequer, Winston Churchill, in 1929 expressed his admiration for the way building societies were helping to turn England into a nation of savers and homeowners.<sup>481</sup> Nevertheless, with regards to Churchill’s goal of building a nation of home-owners, building society leaders were still enviously looking at the United States – where the movement of home-ownership had advanced more than in England. This inspired some building society leaders to claim that the idea of home and home-ownership was « characteristic of the English-speaking race ...our proverb 'An Englishman's house is his castle' is typical of the mental attitude of the race, and it is not be wondered at that the Building Society is essentially an English invention and has reached its greatest developments in English-speaking Countries ». In even grander terms: « it is significant that the origins of the Building Society Movement date from the closing years of the eighteenth century, and it may be regarded as an English symptom of the general urge towards freedom and democracy which produced the French Revolution. It is

coincident also with the advent of the industrial age” (Hodgson, 1929: 5-16). While these claims would remain more ideal than reality in the next decades, the notion of home-ownership as a pillar of English democracy and English national character was already embryonically present in the 1920s (Hodgson, 1929: 7).

iv) Co-operative bank

The Co-operative movement was not a very successful proponent of national character.<sup>482</sup> This is remarkable, given that England is often referred to as a nation of shopkeepers and the Co-op movement for many decades had a leading stake in England’s retail shopping market. It is less remarkable, if one considers that the Co-op movement abdicated from active influence in an alternative “public school” system, thus leaving this institution at the mercy of a form of Tory imperialism which remained characteristic of it for a long time (Hobsbawm, 1968: 141; Wilkinson, 1962, 1963). Generally speaking, Co-operative leaders were confused about where they stood in relation to the national character. While Fabian leaders advocated a lofty, public spirited empire, nonconformist leaders were both anti-imperial and against any notion of English nationalism. The latter leaders still dreamed of a Co-operative Commonwealth that escaped the bounds of any established national framework; a new system of international co-operation developed from the bottom-up. To mobilise support, they rallied against the “reactionary” forms of nationalism and imperialism in vogue at the turn of the twentieth century. As a result, Co-operative endeavours, such as the CWS bank became associated more with the realm of necessity or idealism, rather than with a real national alternative. Especially since the CWS refused to jump on the bandwagon of London-centered financial capitalism.<sup>483</sup> To compound the Co-op movement’s misery, internationally, the Co-operative movement was not very organised, since the differences in dynamics and success rate of types of co-operatives were still too large to allow close co-operation beyond national borders.

**Strategy f Become a champion of the national economic interest**

i) Commercial banks

More than their Dutch counterparts, English joint-stock banks managed to present themselves as vehicles of a new public-private equilibrium, vehicles of a new “neutrality”. While their Dutch counterparts were only very tangentially involved in the extension of the suffrage, and the broader issue of integrating a much larger franchise in a concept of the public interest, English commercial banks led the way in these matters. First, joint-stock banks were the ones most successful in jumping on the bandwagon of middle class radicalism in the 1820s, which led to the first extension of the suffrage in 1832. Drawing on provincial aversion for the “old corruption” of the Bank of England – the “virtual” representative of the people, new joint-stock banks successfully presented themselves as the direct representatives of the people<sup>484</sup>, and the true, decentralised guardians of the national debt of the country.

Remarkably, in order to do this credibly, provincial joint-stock banks – those nonconformist “classless” endeavours – applied the most conformist ordering principle of the public interest: its compartmentalisation in terms of private economic interests and classes. Joint-stock banks from the onset had distinguished between the financially respectable and non-respectable: initially, this distinction was applied across the still murky divide between labour aristocracy and emerging middle classes. As soon as the respectable/non-respectable distinction mapped more clearly on the distinction

working/middle class, however, joint-stock banks followed suit. They referred customers below a certain level of means and respectability to the savings banks. In doing this, joint-stock banks reinforced the dividing line between necessity and freedom, philanthropy and voluntarism: the boundary between “working-class” savings banks of a philanthropic nature, and middle-class joint-stock banks of a profit-oriented nature. By and large the State supported this dividing line, as it meant the substitution of predictable minorities for the unpredictable fluctuations of a dispersed popular opinion.

Joint-stock banks went through a transition period in the 1880s and 1890s, when they tried to find a new balance between issues of economic profit and the public interest. At some point, joint-stock banks fiercely protested the government’s preferential treatment of savings banks, and claimed that the government, in cause the Post Office Savings Bank, was stealing their customers.<sup>485 486</sup> An interesting debate ensued in joint-stock circles between those anxious to see a more « neutral » State, and those anxious not to position joint-stock banks as private interests unduly interfering in matters of the public interest.<sup>487</sup>

Apart from this transition period, however, the private joint-stock banking lobby time after time managed to present itself as a vehicle that prioritised the public interest over its own petty interests. As noted above, by the 1850s a view of the Clearing House as a « public institution » that represented the « people » was emerging (Gilbart, 1851: 282). By the turn of the twentieth century, membership of the Clearing House came to signify service to « England and Empire », the dominant national interest motto of the times. In fact, the causality between allegiance to the Clearing House and service to the Empire had become strangely muddled : «it was in order to maintain London’s status as ‘the world’s clearing house’ that ‘ we have been driven to increase our Empire’ » (MacKinder, 1900: 155).

Besides the Clearing House, joint-stock banks served the national interest through membership of other public-private vehicles. For instance the Committee of London Clearing Bankers was ‘the ‘Cabinet’ or ‘War Council’ of finance (Pownall, 1914: 38). To represent domestic rather than imperial issues, finally, joint-stock banks counted on the Institute of Bankers (1878) and the Central Bankers Association (1895).<sup>488</sup> All these banking bodies flourished in the the culture of lofty imperialism and the atmosphere of National Efficiency championed by Fabians and Conservatives alike.<sup>489</sup> Even the New Liberals after WWI asserted that ‘the bankers of London were the “very linchpin of national financial safety...influenced not in the slightest degree by what is know as Party Politics”’.<sup>490</sup>

In sum, English joint-stock bankers were rather succesful at arguing that, at the end of the day, they showed tremendous restraint in their commercial endeavours, and always submitted to what was in the national economic interest. After all, the joint stock banks provided the credit on which rested the whole edifice of the City of London as a world financial centre. Also, English clearing banks consciously limited their business to traditional banking activities such as the granting of short-term loans, discounting and the granting of overdrafts. As a result, in 1909 the compounded total assets of the three leading British joint stock banks – Lloyds Bank, London County and Westminster Bank and the London City and Midland Bank – were roughly the same size as the largest German bank, the Deutsche Bank, and the largest French bank, the Credit Lyonnais.

ii) Savings Banks

The TSBs and the Post Office Bank were explicitly used to support British monetary and fiscal policies, thus earning them praise for acting in the public interest. The

POSB was seen by many as a very efficient way to both serve the public interest – increasing the monetary liquidity of the national debt and credit system centred in London, and serve the interests of the poorest of savers. The perception of TSBs, however, was different. Not only was it a qualitatively inferior servant of the public interest. Privately, constituents considered TSBs the “lowest form of providence” and the least mutual of all self-help institutions – together with working-class life insurance providers (Alborn, 2002: 1). In other words, TSBs were perceived too much as vehicles of the public interest and not enough as vehicles of class and economic mobility. To counteract these perceptions, the Trustee Savings Banks Association was established in Manchester in 1887. Unfortunately, throughout much of its history the Trustee Savings Banks Association failed to act as central provider of administrative functions to many savings banks.<sup>491</sup> Still, one of the notable of the Association was the lifting of limits on deposits in 1915 as well as the Act of Parliament of 1929.

iii) *Building Societies*

To be perceived as vehicles of the public interest, building societies shunned any direct involvement in special interest politics.<sup>492</sup> For instance, the Building Societies Association resisted the temptation to take advantage of the possibility provided by the 1906 Housing of the Working Classes Amendment Bill, to borrow money from the government to build houses. Leaders of the Association of Building Societies stressed the non-party character of the association. For instance, the Association avoided extreme opposition against the Liberal government in 1909 when it proposed to tax increments in land value, in light of the prominent presence of Liberals and nonconformists in the building societies movement. Instead, the Building Societies Association preferred to focus its political efforts on a few issues of central importance, with great success (Cleary, 1965: 166-167).

Although building societies benefited clearly from certain economic policies, the claim that fiscal advantages accrued to mortgage lending from the 1920s onwards as a result of an active pro-home-ownership policy has not passed the test of historical validation (Ball, 1983). Neither has the claim that the growth of home-ownership was the result of a natural and ingrained desire for property. What historical research has made clear is that fiscal advantages accrued to owner-occupation indirectly because it remained the only real option between the rent-option which the Liberal and Labour Parties eschewed and Labour’s nationalisation option which the Conservatives abhorred. Up to the 1930s, both owner-occupation and local council rented housing were fiscally stimulated to the detriment of private rent housing (Daunton, 2002). All of this in the name of promoting a unified national economic interest, i.e. a policy that was not seen as overly sectarian, but relatively neutral by any special interest. However, it is only when home-ownership started involving a significant share of the national population – from the late 1950s onwards, that building societies would become recognised as central to that national economic interest.

iv) *Co-operative Bank*

Probably the biggest flaw in the English co-operative movement’s strategy is that, starting with Owen, leading Co-operators did not trust political intervention or lobbying for two reasons. First, Owenites considered it their ultimate duty to create a Co-operative Commonwealth outside the existing political framework. They were more than happy to let the minimalist liberals carry on with their *laissez-faire* policies.<sup>493</sup> Second, the Rochdale pioneers associated habits of provincial voluntarism – which developed in the

least “imperial” Pax Britannica decades of the 1840s, 1850s and 1860s – with success. Unfortunately, as pointed out above, this period turned out to be rather exceptional in British history. When this exceptional period was over, the movement did not know what to make of British Imperialism, preferring to hold on to an old-fashioned neutral stance (Gurney, 1996: 105). As Co-operators held on to their nineteenth century version of the tradition of neutrality, their influence on the political scene dwindled – despite their gigantic presence in English retailing markets.<sup>494 495 496</sup> With the coming to power of the Conservatives and the advent of imperial policies, Co-operators’ position in politics became increasingly marginal, by default of an active political strategy of their own (for a more exhaustive history of Co-operative politics, see Appendix L).<sup>497</sup> When Co-operative leaders finally opened their eyes to the reality of politics it was too late: they scrambled to start a political party of their own. The Co-operative Party’s efforts to influence national policy through the parliamentary system was limited, and often even had counterproductive effects.<sup>498 499 500 501</sup>

The fate of the CWS banking department – which enjoyed very few legislative privileges and economic success – is all the more striking when compared with the much more successful route taken by one of its original creations, the Co-operative Permanent Building Society. The society had been formed in 1884 by the Guild of Co-operators (CPBS); although the term “co-operative” was incorporated into its name the CPBS was never a co-operative society in the legal sense, it was and remained completely independent, and its relations with the movement were no more than ones of affinity. Thus, while the CPBS attracted considerable cash deposits from the Co-ops, the leadership of the CPBS steered away from fraught Co-operative politics, to associate with the BSA and the rest of the building societies. After 1930, the CPBS would grow into England’s fourth largest building society.

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<sup>298</sup> Up to 1914, the British State maintained a huge navy at a level of technological and managerial efficiency that was capable of defeating the combined fleets of any two potential rivals.

<sup>299</sup> While James Mill (1808) was the father of the Real Bills doctrine, Adam Smith also warned against the overissue of credit by joint-stock banks (cf. Alborn, 1998: 56-57; Perlman, 1989: 77).

<sup>300</sup> In that year, Parliament passed legislation altering the terms of the Bank of England’s monopoly and allowing the formation of other joint-stock banks, that could be owned jointly by an unlimited number of people, known as shareholders, each of whom could buy one or more shares (or stocks) in the bank.

<sup>301</sup> The political ideas of Auberon Herbert, who served as a Liberal representative for Nottingham in the House of Commons from 1870 to 1874, are usually associated with the late Victorian Individualist thinkers primarily influenced by the philosopher Herbert Spencer. Although Herbert derived his political philosophy of Voluntarism from Spencer’s thinking it also owed much to J. S. Mill. Voluntarism was based on a Lockean-Spencerian conception of individual natural rights that asserted self-ownership and the moral obligation for individuals to respect the rights of other people. Rights protection against force and fraud constituted the primary purpose of government, which held only the same rights as its individual creators. Herbert, aptly describing Voluntarism as the system of liberty, peace and friendliness, applied these principles to a range of situations from street maintenance, to collective property purchase, and, finally, to the voluntary support of the state. Voluntary taxation was the most controversial component of Herbert’s theory, emphasising its distinctiveness. Although Herbert resisted socialist and new liberal attempts to expand the role of the state, his reasons for doing so shared little in common with conservative critics of this direction. Herbert, a republican and democrat, repeatedly attacked privilege and advocated significant change including land reform and universal suffrage. His position represented that of a radical reformer seeking to promote Voluntarism as the basis for friendly co-operation among free individuals at home and abroad. An internationalist, Herbert opposed aggressive imperialism, but also supported national self-determination, including Irish Home Rule (Edyvan, 2006).

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<sup>302</sup> The demand for freer trade with the East was, however, strong nearly everywhere, except in the older clothing districts of East Anglia and the West Country which supplied the East India Company and which feared that they would lose business if its monopoly were abolished.

<sup>303</sup> See chapter 4 for an explanation of the meaning and description of the development of "secular Anglicanism"

<sup>304</sup> In particular, from the late 1890s, the Conservative Party in particular, but also the Liberal Party, expressed their dismay about the growing economic and military might of Germany. Some German leaders like Wagner and Schmoller were calling for a protectionist trade policy, and forged a political-economic link between national security and protecting German agriculture. The two scholars also urged an aggressive program of territorial expansion. Germany, they wrote, needed more space to ensure a high standard of living in an age of vast and autarkic empires -- and to settle the country's rapidly increasing population. Schmoller called for creating a German country with 20 to 30 million inhabitants in southern Brazil. Wagner dismissed "idle pretensions like the American Monroe Doctrine" as an obstacle to German colonisation. In addition to overseas adventures, Schmoller and Wagner foresaw a dominant German role in European affairs. Both expressed the view that German hegemony should extend throughout what came to be referred to in pan-German circles as Mitteleuropa. For dependence on foreign food supplies could be crippling in the event of war. Furthermore, protectionism would preserve the large peasantry that supplied the backbone of a strong army. Remarkably, in England, all parties agreed that a certain Germanisation of education had to take place. This implied the chartering of civic universities, the restratifying of secondary education, the creation of Imperial College and junior technical schools. The War itself led to a much closer involvement of the universities and industry in research in a whole range of products from drugs and explosives to glass and steel.

<sup>305</sup> Down to the end of the eighteenth century and beyond, the word "class" was used interchangeably with the traditional concepts of "ranks", "degrees", and "orders". Indeed, until then, the word class did not have overtones of social strife and antagonism, but rather of tradition and paternalism, as illustrated by the radical Robert Owen's initial use of the word interchangeably with the "lower orders" (Owen, 1816: 14). Nevertheless, several developments made the position of the establishment increasingly uncomfortable. For one, the looming imbalance between population growth and food supply which became apparent in the 1820s was weakening the dominance of agriculture and increasing the need to move towards a more open economy (Cain and Hopkins, 1986: 515). Also, accusations of "old abuses", for instance concerning the Bank of England, gained strength. In addition, when under pressure of nonconformists and liberals, the formal repeal of the paternalist legislation took larger proportions, the working ranks became increasingly exasperated, so as to awaken in them the spirit of class conflict (Perkin, 1969: 188). Class conflict would actually only reveal itself with full force in the 1880s.

<sup>306</sup> Even proponents of military action had criticised the government for waging wars against Napoleon; they deemed the government to be squandering their huge contributions to the Treasury. A large bloc of the propertied classes obviously supported the military and legal measures taken by the ministry in order to defend property against revolutionary levelling, and the overwhelming majority at least showed themselves willing to pay for the war effort...the propertied were paying most of the bill for a war fought in defence of property (cf. O'Brien, 1988: 13).

<sup>307</sup> As early as 1839, some of the more radical Whigs had adopted the name Liberal Party.

<sup>308</sup> When as soon as in the 1820s the demand for authority-sharing by the bourgeoisie became irresistible, the landed establishment reacted in a flexible manner. In face of growing attacks on the "Old Corruption", from 1782 to 1832 a number of reforms were carried through, with the aim of separating politics and administration. Arch-conservatives like Lord Liverpool were brushed aside, and the minimum necessary concessions were made, for instance by passing the first Reform Act, abolishing the Corn Laws, and reforming the civil service and public schools reforms. Despite their visibility, these measures did not make much difference in practice (Mueller, 1984: 94-96, 101-102; Stone and Stone, 1984: 421). Most notably, the notion of office as private property fell into terminal decline during this period. It was gradually supplanted by what would become an axiom of mid-Victorian "good government": that office was a public trust, and that consequently civil officers should be subject to uniform standards of recruitment, performance and compensation (cf. Harling, 1996: 22; Rubinstein, 1983). Less symbolic were the changes with regards to the status of banking.

<sup>309</sup> Joseph Chamberlain (1836 - 1914), originally a Liberal, resigned in 1886 over the Home Rule question for Ireland. He subsequently became leader of the Liberal Unionists and a leading advocate of preferential trading agreements with members of the British Empire.

<sup>310</sup> The decline of radical dissent and liberalism and the move of the better-off Nonconformists to the Conservatives had to do with the remarkable success of the "voluntaryist cause" -- the separation of church and state and the promotion of voluntary religious affairs -- under Gladstonian liberalism. To understand this we need to analyse one of the reasons for the massive support of Nonconformists for the Liberal Party: the so-called "church rates" controversy. The church rate was an ancient tax required of all ratepayers, be they Dissenters, non-

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Anglicans, or Anglicans for the upkeep of parish churches of the Church of England. From the 1830s, the Dissenters determined to tolerate the situation no longer. When Gladstone decided to champion the Dissenters' "voluntaryist" cause in the 1860s, he established the relationship that would give the Liberal Party the solid basis of electoral strength it needed to carry out the "great liberal reforms" after 1868. Gladstone and the Nonconformists increasingly worked together to build a moral society based on religious liberty, free trade, fiscal probity, and balanced budgets. As a result, religion by 1868 had become freer of state control. What neither Gladstone nor the Nonconformists, however, had anticipated is that the state, in becoming more liberal, increasingly became denuded of religious influence. Though the controversy over church rates had not led to Disestablishment, it had contributed to a large extent to the rise of a secular liberal state in England. As such, Gladstone in fact had inadvertently defeated his own primary purpose, namely to maintain a Christian conscience in the State. Likewise, this outcome defeated the Nonconformist purpose pronounced until as late as 1834 to rely on state sanctions to enforce nondenominational Christian religion in public life. As many Dissenting leaders were more antagonistic to the forces of irreligion than to the Church of England (Ellens, 1994: 45-47; 269-271), they increasingly took refuge to the Conservative Party, which, more than the liberals, knew how to promote Anglican Christianity on a large scale in face of increasing irreligion, i.e. by using the Anglican Church as a symbolic rallying cry for Englishness and imperialism.

<sup>311</sup> As nonconformity ceased to expand much from the 1870s on (see Appendix C), the movement of "competitive private enterprise" lost one of its powerful supports (Hobsbawm, 1968: 141). Still, the decline of middle class nonconformism until the turn of the century was masked by the growing electoral weight of a generalised "nonconformist conscience", as evidenced in the practices of the businessmen who rose to affluence and influence in that period. In other words, the dwindling role of religion as a mediating factor between politics and the market could not be the only or even main reason for the decline of Liberalism.

<sup>312</sup> The move away from Gladstonian Liberalism to the Conservative Party, was facilitated by the reassertion of London as the dominant policy center in England and the concurrent emergence of a new capitalistic social class from the wreckage of "Old Corruption".

<sup>313</sup> In 1880 the same happened, despite it being a Liberal year overall. Sunday opening and temperance reform were what some of the old City liberals were about, not slum housing and unemployment...as old-style Gladstonian Liberalism ran out of steam, the Liberal agenda was moving irrevocably towards more materialist and therefore, to its upper middle-class and aristocratic supporters, more threatening considerations (Kynaston, 1994: 369).

<sup>314</sup> At the turn of the twentieth century, the decline of the British supremacy vis a vis its German and US rivals was at the centre of discourse. With the threat of industrial unrest ever present, promoters of National Efficiency – such as the Webbs – repeated their calls for more "productive" industry instead of "unproductive" rent-seeking. Under growing pressure from the nascent Labour party, the Liberal government after 1905 had absorbed this message and linked it to the social question. As a result, the "cosmopolitan capital" of City of London financiers increasingly came under attack, having to endure a steeply graduated taxation, super tax and land taxes. Indeed, in the period 1904-1914 the Liberal governments consistently boosted themselves on being able to put the "wider needs of the British State and people" above the particularistic interests of the City. WWI undermined the political economy of free trade, the gold standard and limited government expenditure which had suited so well both the Liberal Party and the City of London (Howe, 2004: 135-136).

<sup>315</sup> Many politicians appreciated that it would be counterproductive deliberately to antagonise the City. Especially since some of the City's leading figures, usually either merchant bankers or private bankers, moved freely in the same social world as the leading politicians of the day, meeting as a matter of course and more or less as equals at clubs, dinner parties and country house parties (Kynaston, 1994: 372).

<sup>316</sup> Liberal parliamentary chairman MacLean at the 1921 International Finance Conference at Brussels, cited in Howe (2004: 147).

<sup>317</sup> This Act was meant to cover workers against sickness and unemployment.

<sup>318</sup> If wages were below a certain level, the workers' contribution was reduced; the employer was liable to pay the balance. Contributions were collected by employers when they paid workers; a stamp was stuck on each workers' card (Chappell, 1980: 201).

<sup>319</sup> Initially the income tax was introduced as a temporary measure to cover the national deficit. Income taxation would put an end to taxation of vital commodities, which too often meant taxation of poverty and distress. Property owners agreed with that measure, as they were afraid of a popular revolt.

<sup>320</sup> Joseph Chamberlain argued that: "If tomorrow it were possible, as some people apparently desire, to reduce by a stroke of the pen the British Empire to the dimensions of the United Kingdom, half at least of our population would be starved."

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<sup>321</sup> The term “national efficiency” seems to have been coined by Sydney Webb in 1901, within the context of the Boer War.

<sup>322</sup> After 1910, it was obvious to the Conservatives that, if they were to win another election and safeguard the status quo from future Liberal attack, they had to gain a bigger share of the northern urban vote. They set out to do this in 1913 by abandoning imperial preference because the ‘dear loaf’ cry raised against them by the Liberals in 1906 and 1910 had been so successful. The Conservative Party together with the Labour Party still represented a solid wall of opposition to any fundamental changes in Britain’s internationalist economic policy, a wall which Tariff Reformers could not bring down (cf. Cain and Hopkins, 1993: 199).

<sup>323</sup> New York was gradually supplanting London as the premier world financial centre from WWI onwards. Indeed, during WWI New York already surpassed London as the largest city in the world, corresponding to the rise of the North-American empire over that of the British Empire in financial, industrial and political power (Lukacs, 1984 : 161).

<sup>324</sup> By the early twentieth century the Treasury was the key department of central government, not because there was a singly authoritative statement giving it this position but because it had acquired important responsibilities piecemeal, in an unplanned fashion, over hundreds of years. During the nineteenth century, the relationship between Treasury and Parliament in relation with the control over public expenditure became more clearly established. Also the Treasury’s responsibilities for personnel management became more established. Following the First WWI the Treasury’s general responsibilities for public policies were further consolidated after the Aldine Report on the Machinery of Government (Chapman, 1997: 29). Stating that the “the Treasury is a Department of control and supervision rather than administration”, the Aldine Committee claimed that “the interests of the taxpayer cannot be left to the spending Departments; that those interests require the careful consideration of each item of public expenditure in its relation to other items and to the available resources of the State, as well as the vigilant supervision of some authority not directly concerned in the expenditure itself” (Haldane, 1918: 18-19).

<sup>325</sup> Disraelian Anglican democracy in effect meant both the reorganisation of the party machine so as to make it more open to the urban middle class and the promotion of policies appealing to the working class (Blake, 1997: 147-148).

<sup>326</sup> Jacobinism in Britain denoted radicalism that was sympathetic to the French Revolution.

The name refers to the Jacobin Club, the extreme radicals in the French Revolution. The government of Pitt the younger regarded radicals, such as Paine, Tooke, and members of the Corresponding Society, as advocates of Jacobinism in Britain and acted with increasing severity against social or political unrest. It suspended habeas corpus (1794-1801) and introduced such legislation as the Combination Acts.

<sup>327</sup> As we shall further elaborate in chapter 13, the Netherlands provides an intermediary case in this regard.

<sup>328</sup> Participation in politics by non-gentlemen was severely hindered by the fact that up to 1911 MPs did not get any salary.

<sup>329</sup> Leading figures in this new organisation included Hardie, Robert Smillie, George Bernard Shaw, Tom Mann, George Barnes, John Glasier, H. H. Champion, Ben Tillett, Philip Snowden, Edward Carpenter and Ramsay Macdonald.

<sup>330</sup> The most important distinction within the working class was between the “respectable” and the “roughs”, a division that coincided with the difference between the chapel- and churchgoing. Indeed, for the urban working class, the chapel was usually superior to the church, which was for the dependent poor (Perkin, 1989: 107).

<sup>331</sup> For instance, in 1895 the so-called Independent Labour Party had only 35,000 members.

<sup>332</sup> The Committee was a forerunner (1900-06) of the Labour Party. It was founded in February 1900 after a resolution drafted by Ramsay MacDonald, and moved by the Amalgamated Society of Railway Workers (now the National Union of Railwaymen), was carried at the 1899 Trades Union Congress (TUC). The resolution called for a special congress of the TUC parliamentary committee to campaign for more Labour members of Parliament. Ramsay MacDonald became its secretary. Following his efforts, 29 Labour members of Parliament were elected in the 1906 general election, and the Labour Representation Committee was renamed the Labour Party

<sup>333</sup> “The British Labour Party has never been purely insular or nationalist. From the very first days of working-class British organisation we have endeavoured to link ourselves with similar movement across the sea (1) Our sympathies at all times have been on the side of nations struggling for social and political freedom whether living under foreign dictatorships or under our own government” (Lansbury, 1935: 2).

<sup>334</sup> The Fabian Society was probably the socialist grouping that was most outspoken in its support for the war and imperialism...The Independent Labour Party, which had been founded in 1893 and had its strongest support in the north of England, was the most unambiguous of the socialist organisations in its opposition to war and imperialism. ILP criticism of the South African War was often expressed in moralist and pacifist terms that came close to the discourse of liberal war critics and to some extent reflected the influence of protestant sectarianism in the working-class culture where the party recruited its membership (Kaarsholm, 1989: 115).

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MacDonald was one of those who resigned from the Fabian Society when it split over the question of support for imperialism, in 1900 during the Boer War. In this 'socialist' organisation a poll showed that 259 supported George Bernard Shaw and Sidney Webb's argument for a 'lofty and public-spirited Imperialism', and only 217 voted for the anti-imperialist position. The majority Fabian line thus became support for imperialism and the congenial doctrine of national efficiency, in alliance with the Liberal-Imperialists, Rosebery, Asquith, Grey, Haldane and so on (Davin, 1989: 209).

<sup>335</sup> Ramsay MacDonald, *The Socialist Movement*. 1911: 93, cited in Pugh, 1982: 75.

<sup>336</sup> Land nationalisation was the earliest and most complex of nationalisation movements of the nineteenth century. A land question existed when the political RADical movement was born, and that movement was faced with a social structure in which nearly all land was privately owned, and a good deal of it accumulated in large estates. To political reformers of the early nineteenth century the landowning class was the main target; for the wealth, prestige and political power which landowning on a large scale then gave to the few seemed the main obstacle to a democratic form of government. To remove or curtail the income of great landowners was a popular battle-cry for reformers (though it roused no echo from tenant-farmers, who produced quite different grievances in their petitions for Government help). This view of land as the source of income and power to landowners remained a popular view right into the twentieth century, long after landowners as such had ceased to be the dominant governing class, or to draw their main income from the land (Barry, 1965: 17).

<sup>337</sup> As a solution to the problems of population growth and rent expropriation, the Fabians proposed a so-called « socialisation of rent », meaning « the socialisation of the sources of production by the expropriation of the present private proprietors, and the transfer of their property to the entire nation ».

<sup>338</sup> Presidential Address to Labour Party Conference, 1923. This well-known Fabian phrase was first outlined in the *Fabian Essays* (Shaw, 1889). The Fabians' emphasis on gradualism can be explained by their focus on the landed class. In the past, the landed classes had demonstrated their « voluntarism » in, on the one hand, confining their opposition to socialism to the arena of constitutional politics and, on the other hand, accepting defeat with good grace – as they had largely done confronted with increasing Reforms. Therefore the Fabians predicted that « we need not seriously anticipate that the landlords will actually fight » (Shaw, 1889: 179).

<sup>339</sup> Some citations (Report on Fabian Policy, 1896, Fabian Tract No. 70) might help in clarifying the nature of Fabianism. "The object of the Fabian Society is to persuade the English people to make their political constitution thoroughly democratic and so to socialise their industries as to make the livelihood of the people entirely independent of private Capitalism..."

"To bring about the maximum amount of public control in public administration do we want to organise the unthinking persons into Socialist Societies or to make the thinking persons socialistic? We believe in the latter process" (Beatrice Webb's diaries, 1896)

"Socialism, as understood by the Fabian Society, means the organisation and conduct of the necessary industries of the country...through the most suitable public authorities, parochial, municipal, provincial, or central"

"The Socialism advocated by the Fabian Society is State Socialism exclusively"

"The Fabians...are 'intellectuals' par excellence. Their Socialism is municipal Socialism'the commune, not the nation, should become at least temporarily the owner of the means of production...from this follows their tactics, not to fight the Liberals decisively as an enemy, but to drive them onto Socialist conclusions..." (Friedrich Engels to Richard Sorge, 18 January 1893)

<sup>340</sup> The sort of 'national government' which the advocates of efficiency were anxious for Britain to have would be one that, by ignoring all factional and sectional agitation, could take a 'strong line' in its dealings with foreign powers. Discontented 'have-not' groups, like Labour, the Irish Nationalists and the Nonconformists, all suffered from the prevalence of this consensus approach to politics. The label, 'anti-national', could so easily be tagged on to these divisive elements within the community. Particularly favoured as a whipping-boy by those who extolled efficiency was the provincial chapel-going radical, engaged in his implacable vendetta against the Established Church, the brewers and the landed interest; with his atomic conception of society, this sort of Dissenter seemed to express all that was most negative and factional in the national life...few Nonconformists were prominently identified with the national efficiency movement and...many staunchly opposed it. By contrast, the Church of England found it much easier to come to terms with the cult of efficiency, perhaps because of its traditional concern with the problem of 'authority' and 'discipline'. Another reason for this, however, may be the continuance within Anglicanism of that 'Broad Church' tradition of thought (Searle, 1971: 97-98)...Writers and theologians of this persuasion were concerned to attack the atomistic and mechanistic modes of thought characteristic of Utilitarianism and to commend an ordered and hierarchical society held together by 'natural' relationships and a set of common values (Searle, 1971: 31).

<sup>341</sup> In fact, the Webbs were more Whig paternalists than socialists. So, they attempted to bring leading imperialists of all parties together in a club called the Coefficients, who were to represent professional experts in every field

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of government. The rallying cry National Efficiency effectively appealed to the three major classes, which facilitated the formation of a professional status group that could count a broad basis of legitimacy. This group of professionals “in service of society” would increasingly tackle the “threat of socialism”, Anglican conservatism and “New Liberal” pressures for an inclusive welfare program through casting all economic problems in a new moral light. This ensued in for instance contributory national insurance (Perkin, 1989: 158-161).

<sup>342</sup> Fabians saw efficiency as largely involving issues of providing healthy and efficient workers for the company, rather than changes in company organisation and practices. This focus on the National Minimum chimed in with the New Liberal emphasis on the ‘Condition of England’ question and can be seen as both progressive for its time and rather neatly linking issues of welfare and efficiency. But as a programme for industrial efficiency it must be deemed strikingly narrow...The S.D.F. and I.L.P. had little distinctive to say, and at a latter stage guild socialists were in principle hostile to regarding industrial efficiency as a key issue (Tomlinson, 1993: 22).

<sup>343</sup> The Labour aristocracy in nineteenth century England never amounted to more than 10 percent of the working class population (Hobsbawm, 1964b: 279). The rise of trade unions thus had as much to do with urbanisation and its corollary of new respectable ranks, as with industrialism alone (Perkin, 1969: 119).

<sup>344</sup> Thomas Wright, 1873, *Our New Masters*: 275

<sup>345</sup> The 1875 Act extended to trade unions an almost archaic corporate immunity. So, the unions received the kind of associational privilege previously allowed to many upper- and middle-class institutions, such as Oxford and Cambridge colleges. Yet, whereas these self-policy bodies ruled themselves within a clear legal framework, the unions notoriously operated within no framework at all (McKibbin, 1984: 28).

<sup>346</sup> The respectability of trade union leaders and the acceptance of their members of such a style struck a French observer of the last decades of the 19<sup>th</sup> century. When comparing this with the French leadership style accepted at that time, he argued (De Rousiers, 1897: 309, 322): “the leaders of the English trade unions rapidly become gentlemen... without anyone blaming them for it”

<sup>347</sup> By 1975, union membership covered 50 percent of the work force.

<sup>348</sup> Guild socialism, the most elaborate doctrine of workers’ control in England faded quickly after the end of the first World War. Its proposals had little appeal to the militant and experienced socialist leaders of the time, who saw in the existing political machinery opportunities for achieving effective power. Among the intellectuals the preference of Fabians like the Webbs for Government or municipal ownership (or consumer control) was not to be overcome...Of course, there was a sharp difference of principle between concepts of workers’ control, concerned with power within industry, and public ownership aiming at the well-being of the whole community. The 1960s saw a revival of workers’ control as a programme among militant trade unionists (Tivey, 1973: 22-23).

<sup>349</sup> The Christian Socialists in 1849 established the Society for Promoting Working Men’s Associations, they sought through its instrumentality to bring together groups of workpeople employed in particularly unfavourable conditions, advancing to them the necessary capital for starting in business as co-operative associations, or self-policy workshops. In these workshops, the workers ruled their own affairs, selecting their managers, committees, &c., and distributed among themselves, as bonus on wages, or in other ways, the surplus arising from trading. About twenty such associations operating in the tailoring, shoe-making, printing, baking, needleworking, and other trades were established in the early eighteen-fifties, but only one of these - the Shoemakers’ Association - survived beyond a decade, the difficulties indicated above proving too great to be overcome in the conditions then prevailing. The Christian Socialist Group broke up about 1854, its members continuing to serve the co-operative cause in varied capacities. The failure of the workshop movement has been attributed to the perpetual disagreement between the promoters themselves, i.e. Ludlow, Neale, Maurice and Kingsley.

<sup>350</sup> The influence of Christian socialism and Nonconformity on Co-operation made Co-operative discourse increasingly Christian in tone. Sentences like “proselytising into Co-operation” or “the heresy of our day: the making of profits as an end” became very common in Co-operative Congress Reports from the 1850s onwards. Even the noun efficiency was couched in Christian connotations. So, in 1880, a piece about education in the Co-operative Congress Report stated “we require an efficient staff of missionaries, men able, willing, and ready to teach principles – and the practices to follow up” E.V. Neale (ed.) 1880. The twelfth annual Co-operative congress Report. Manchester: Co-operative Union Ltd.: 65. In the same report (63-64), the achieving of purpose by Co-operators in light of their growing economic figures, was compared to the rise and fall of the Christian Church: “the facts exhibited in the early Christian Church are equally facts in co-operation. The growth in popularity has had a co-related decline in purity; and the advance in wealth a decline in principle”.

<sup>351</sup> As Chartism could be seen as the political dimension of the way of life of the producers in early industrial Britain, the end of Chartism also meant the end of the hope that the property of the labourer, his labour, could be given the same protection in law as the property of the landowner or the industrial entrepreneur (Thompson, 1984: 337). From then on, laissez-faire became standard policy in England. The City of London directors of joint-stock companies were the main beneficiaries of this move. Despite the fact that the huge legal privilege of

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limited liability was increasingly granted to joint-stock companies of all sorts, nothing substantial was conceded to the “public” in return for it, in the shape of accountability, disclosure provisions or particular governance structures to ensure that companies acted in accordance with the public interest. Having given companies a basic framework, the laissez faire proponents argued, the State needed to leave them to manage their own affairs, having no desire or business to force on ‘these little republics’ any particular constitution. Of course, in the mean time, especially joint-stock banks’ organisational style became increasingly “undemocratic”; as their operations internationalised they increasingly operated in a field devoid of public scrutiny.

The subsequent evolution of English company law demonstrates that laissez-faire principles proved to have greater influence in shaping the constitution of the company than did the interests of small investors or the working class. Unlike in some other countries there was no attempt to entrench public interest provisions in the constitution of companies. While “economic organisations” were still treated as private associations, they were granted extensive public privileges. In this way the rights and legitimacy of individual property were transferred to the new legal personality of the company, and the foundations of the dominance of the doctrine of shareholder value were laid in English policy (see Gamble & Kelly 2000). Most leading co-operators embodied the “anti State intervention” turn of the 1840s and 1850s and were antagonistic vis a vis “collectivism”. Instead, they held on to the “free trade finance” style as epitomised by the joint-stock banking style and as materialised in its Co-operative equivalent, the dividend scheme. Paradoxically, leading co-operators were increasingly critical of the joint-stock capitalist form, with its purported focus on material exploitation and its lack of democratic scrutiny. Nevertheless, by closely allying with promoters of free trade, co-operators helped to neutralise the calls for more public scrutiny of joint-stock organisations. Thus, they helped to delegitimise common ownership or profit-sharing and to legitimise individual shareholding and profit-seeking.

As a result, Producer Co-operators had to seek safety outside the movement, through the foundation of a separate Co-operative Producer Federation, with headquarters in Leicester. All the above factors provided for an organisation style for worker co-operation of a relatively low status in England, as became increasingly apparent after 1877. Since the passing of the 1855 Limited Liability Act and the 1856 Joint Stock Companies Act, there had been a continual and cumulative increase in joint stock enterprise. (Interestingly, the public concern that rose in the 1850s about the unlimited liability of firms, was especially vociferous amongst those concerned to provide safe channels for the savings of poorer people thus, the 1855 Limited Liability Act came into being mainly through the pressures of this group (cf. Tivey, 1978: 24)). The introduction of limited liability for joint-stock companies had promoted a great increase of companies that were speculative or fraudulent and soon proved abortive. This had given a blow to joint-stock companies’ status. Already from 1867, but certainly after 1877, however, fraud and speculation among joint-stock companies notably declined, leading the government Committee covering the years to conclude in 1899 that (Todd, 1932: 63-71).

<sup>352</sup> In fact, later analyses coined the federalist group “individualistic”, because of their antagonism vis a vis socialist collectivism and their preference for a “free trade finance” style, i.e. a style ensuring a separation of politics and economics as favoured by liberal elites in the nineteenth century (cf. Gurney, 1996: 187).

<sup>353</sup> “Capital and Labour...employers and workmen...How sharply defined and widely severed these two classes are in our time – how dangerous their antagonism has become to the commonwealth” Proceedings of the Co-operative Congress, 31 May 1869: 13.

<sup>354</sup> Especially the Whigs were sensitive to hostile trading and manufacturing opinion as expressed by Trade Unions.

<sup>355</sup> Conservatives

<sup>356</sup> as late as 1914, the Co-operative Congress blew the whistle on the Labour cause within the movement. The Co-operative Union Central Board received instructions to “maintain the neutrality of the movement in respect of party politics...and not to employ co-operative men or money to the advancement of the Labour party or political organisations or movements” (Co-operative Congress Report, 1914: 510). Even the 1917 resolution only sought to establish independent co-operative political activity; a class-based alliance with Labour was still out of the question. Antagonism for “socialist collectivism” and a preference for a voluntarist style still were very much present in the movement.

<sup>357</sup> Co-operative Congress Report, 1921: 488.

<sup>358</sup> It was up to external threats and the impetus of war economy to create new sets of demands about how to effectively use state demands. The expansion of the state apparatus during war thus largely preceded the elaboration of a clear Labour program for state intervention.

<sup>359</sup> According to these prominent protestors, the Bank of England Charter precluded « the public from making any demand on the Bank for a participation in the advantages from the public deposits » (Ricardo, Proposals for an Economical and Secure Currency: 59).

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<sup>360</sup> And in face of the enormous growth in public funds and commitments, Old agreements obviously had become inequitable.

<sup>361</sup> See for instance the following comparison between French and English central banking (Bankers' Magazine, 1889: 395): « In this country the Bank of England is still the chief power amongst banks, but it is like the constitutional monarch, who reigns and does not govern. In France, on the contrary, the system of banking is nothing apart from the Bank of France, which is autocratic, imperial, indispensable ».

<sup>362</sup> Bills of exchange, handled in the London market, were excellent earning assets, in abundant supply in a highly competitive market, in which the individual banker could participate as much or as little as he liked, without consideration of customers' goodwill. But it was not until this market's own liquidity at all times was demonstrably assured by the recognition of the Bank of England as lender of last resort that the commercial bankers could safely keep their cash ratios at all times at an unchanged (and conventional) minimum.

<sup>363</sup> "The direction of development was set by the establishment of the institutions of the City which built and reinforced a system for dealing with money between the government and the rich and wealthy long before the industrial revolution. As other sources of wealth were created outside the landed aristocracy and the merchant class of London and the major seaports, new financial institutions emerged. Over time, however, they became integrated into the circuit of monetary and social capital which centred on the City and reinforced the power of the insiders. Thus the City was eventually strengthened and revived by the supply of new capital from the industrial areas of Britain... The middle classes in particular were incorporated into this process through the new banks and insurance companies which promised them safe havens for their funds and the prospect of sustaining their class position and that of their families in times of illness and old age. On the other hand, the English working class stood predominantly outside of this system. (Morgan and Sturdy, 2000: 70-71).

<sup>364</sup> Joseph Townsend, David Ricardo, Jeremy Bentham, Frederick Eden, George Rose, Patrick Colquhoun, and a host of other English writers advocated such an institution as a cornerstone of a new approach to public welfare. Even Thomas Malthus, who remained famously skeptical of all other efforts to relieve poverty, found in the savings bank a public institution based on sound political-economic principle and in accordance "with the lessons of nature and providence." "Of all the plans which have yet been proposed for the assistance of the labouring classes," he wrote in a 1826 edition of the Essay, "the savings banks... appear to me much the best, and the most likely, if they should become general, to effect a permanent improvement in the condition of the lower classes of society."

<sup>365</sup> While holding the friendly societies legal form, the trustee savings banks differed from other friendly societies on two accounts. On the one hand, the leadership and control of the savings banks was not in the hands of the members who contributed and benefited, as in friendly societies, but in the hands of the providers – paternalists who were seeking to improve the condition of the poor while stopping short politically subversive movements. These providers more often than not came from the Society for Bettering the Condition of the Poor. This society played an active role in the foundation of the early savings banks and in securing the legislation which facilitated the growth of the trustee savings bank movement.

<sup>366</sup> George Rose was first Secretary to the Treasury, and later a Tory MP. He formed a close alliance with Pitt – the younger – and was a staunch supporter of the Combination Laws (cf. Horne, 1947: 72-73).

<sup>367</sup> The trustee principle was defined in the 1817 Act as: to receive deposits of money for the benefit of the persons depositing the same, and to accumulate the produce of so much thereof as shall not be required by the depositors, their executors or administrators, deducting only out of such produce so much as shall be required to be retained for the purpose of paying and discharging the necessary expenses attending the management of such institution according to such rules, orders and regulations as shall have been or shall be established for that purpose but deriving no benefit whatsoever from any such deposit or the produce thereof<sup>367</sup>.

<sup>368</sup> Thus first the country bankers, and then the merchant bankers abroad, created the famous bill on London, which by the punctuality of payment of their London agents ultimately obtained world-wide repute (Ackrill and Hannah, 2000).

<sup>369</sup> British overseas banks in the nineteenth century, while headquartered in Great-Britain, conducted no domestic banking, and initially had no shareholding links with domestic banks. On the other hand, British domestic banks did not open foreign branches until shortly before WWI. The British overseas banks were joined by corporate banks from other countries – most notably Germany, France and Japan – later in the nineteenth century. These latter banks, however, generally had more limited branch networks and were generally linked to domestic banking institutions in their home economies (Jones, 1993: 38).

<sup>370</sup> As we shall see later, soon joint-stock bankers would disavow their claims of direct democracy in favour of branch networks, sleeping partners and autocratic managers (Alborn, 1996: 85).

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<sup>371</sup> The passing of the Banking Act of 1826 was not followed by the rapid establishment of joint stock banks throughout the country. The main factor which restricted the establishment of joint stock banks under the new law was that the Act made no attempt to limit the liability of shareholders to have the whole of their property taken in execution in respect of the debts of the bank if judgment were obtained against the proper officer of the company...the fact that the liability of members in the first joint stock banks was unlimited was naturally an extremely strong deterrent against the investment of money in such institutions by persons of wealth and position (Thomas, 1934: 91). Or as Joplin (1837) put it: « the severity of the law [with regards to unlimited liability] and the great respectability and personal influence of the private bankers throughout the country, prevented the public for some time from availing themselves of it ». Another serious disadvantage under which the early joint stock banks worked was that they were not permitted to draw bills on London under the value of £50. Since the majority of bills wanted in the country were for sums below this amount, the joint stock banks were unable to supply them. The country bankers' application to the Treasury for removal of this prohibition from the 1826 Act was opposed by the Bank of England (Thomas, 1934: 93).

<sup>372</sup> In fact, this is exactly what one of the early labour aristocracy Co-operatives did to defend itself against legal lawsuits by antagonistic private merchants. So, the Birmingham Flour and Bread Company, which in legal terms acted as an unincorporated joint stock company, in face of its prosecution in 1811 claimed that it was acting in the public interest, both by showing its close identification with the locality in which it operated, and by relying on the status and reputation of its original founders.

<sup>373</sup> With the 1856 Joint-Stock Companies Act, general limited liability was introduced (Warren, 1903: 45).

<sup>374</sup> Before then, it was common to establish partnerships under trust law. Clauses were included in partnership deeds to provide for share transfers and the limitation of liability (Pearson, 2002: 7).

<sup>375</sup> One of the reasons for this delay was the historical stigma of the South Sea Bubble in 1720 which still created political hostility to the joint-stock company in the beginning of the nineteenth century. One observer hated the joint-stock system so much that he denounced it as "the sole and sufficient explanation of the miseries of the country. No words were too strong to condemn what was then considered to be a malign perversion of industry, destruction of commercial probity, and of a well-ordered social life" (quoted in Gamble and Kelly, 2000: 29)

<sup>376</sup> Since the Bank of England and the East India Company performed "public functions" which a central government agency could have performed, both acted as supports of the ideal of the *laissez-faire* state. In order to fulfill that role, they had to, on the one hand, preserve their traditional, "pre-modern" structures of patronage and chartered monopoly, and, on the other hand, keep up with the "modernisation" of industry and commerce (Alborn, 1998: 7). The danger was always that these company's political agency would be seen more in light of public functions, i.e. the structural sphere of politics, than as a modern ally of economic action. Only the Bank of England succeeded in sustaining this delicate balancing act between traditional structures and "modern" agency; the East-India company finally was nationalised by Victorian politicians in 1858.

<sup>377</sup> The Chairman of Lloyds Bank Sir Thomas Salt (1886-1898) testified to the distress caused by the chaotic phase of banking history during the last century...[he declared] in 1898 that 'before my banking days are done I may see anything like vulgar competition between large banks given up altogether'" (Clegg, 1969: 169).

<sup>378</sup> « Most of the mergig firms indeed had a Quaker background...Many of them, it is true, were still proud of their Quaker ancestry and treasured Quaker connections, but only two fo the founding directors...were still practising Quakers » (Ackrill and Hannah, 2001: 57).

<sup>379</sup> « By the inter-war years, Barclays had absorbed a good deal of modern corporate banking culture. Apart from Goodenough's reforms of the private banking branches, a large majority of employees after the 1916-1920 mergers came from the former joint stock banks' branches, not from the former private partnerships. Yet the old private banking families retained a disproportionate presence in senior management, and their influence strengthened when the deputy chairman from the joint stock line, Sir Herbert Hambling, predeceased Goodenough in 1932...In sum, the expansion of the bank did not lead to any major modifaicion of the origranal merger aims: preservation of the traditions of private banking within the corporate structure » (Ackrill and Hannah, 200: 63-85)

<sup>380</sup> Twenty persons who left substantial mark in the history of the Lloyds Bank (before WWII): « of the twenty, nine were sons of bankers and three others married bankers' daughters. Nine had sons or sons-in-law who followed them in to banking. Seven were born Quakers ; these belonged mostly to the earlier generations...Including the one born a Quaker, eight of the twenty belonged to the Church of England ; two others (both in Birmingham) were Unitarians. Only three went to a university...Three were active in politics, all of them Conservative » (Sayers, 1957: 61).

<sup>381</sup> For instance, the Building Societies Gazette, founded in 1869, enjoyed early financial support from the nonconformist journal Christian World.

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<sup>382</sup> According to the 1836 Building Societies Act, a building society is established “for the purpose of raising, by monthly or other subscriptions of the several members of such societies, shares not exceeding the value of £150 for each share...., a stock or fund for the purpose of enabling each member thereof to receive out of the funds such society the amount or value of his or her share or shares therein, to erect or purchase one or more dwelling house or dwelling houses, or other real or leasehold estate, to be secured by way of mortgage to such society until the amount or value of his or her shares shall have been fully repaid to such society” (1872, Royal Commission on Friendly and Benefit Building Societies (2<sup>nd</sup> report), Parliamentary Papers, XXVI).

<sup>383</sup> With urbanisation came decreased dependence on the moral economy of local markets and increasing dependence on impersonal money mechanisms. This allowed food retailers to acquire a monopoly situation in many urbanizing localities. In addition, while the Truck Act of 1831 had made it illegal for employers to pay wages in kind or in tickets which could be used in making purchases only at a particular shop – usually the property of the employer – the practice lingered. It is against this background of monopoly situations and the breakdown of local “moral economies” – as translated in practices of food adulteration, high prices and usury in the form of credit trading, that Victorian Co-operative shops were established.

<sup>384</sup> Report issued by the Co-operative Union Information Services Department, 1989. *The Co-operative Bank and Retail Societies*: 1.

<sup>385</sup> Pamphlet in the Co-operative Union archives: Ludlow, J.M. 1870. Co-operative Banking. On Co-operative Banking as applicable to Co-operative Trade and Friendly Societies: 4.

<sup>386</sup> Another argument Ludlow used capitalised on the run for shares that Co-op shops sometimes experienced: “a run upon a Co-operative Bank is better for Co-operative Societies than a run upon their Societies themselves...Co-operative Banks might at least serve as buffers in this respect to the Societies Pamphlet in the Co-operative Union archives: Ludlow, J.M. 1870. *Co-operative Banking. On Co-operative Banking as applicable to Co-operative Trade and Friendly Societies*: 5.

<sup>387</sup> Neale, E.V. 1876. “Co-operative Banking”, *Co-operative News*, VII: 467.

<sup>388</sup> On instigation of the federalists, the Co-operative Wholesale Society (CWS) was set up in 1864 as a trading partnership of Co-operative retail stores. The purpose of its foundation was “to dispense with all needless individual and joint-stock investors of capital for profit, whether in shopkeeping, wholesale dealing, or manufacturing” (1868 Pamphlet in the Co-operative Union archives: The Co-operative Wholesale Society. What is it? Manchester: Co-operative Printing Society: 7). This regarded the relation “between the consumers of commodities and their producers” and the purpose was “to economise the cost of living, and at the same time to remove ‘all temptations to adulteration and every other form of cheating’” (1868 Pamphlet in the Co-operative Union archive. The Co-operative Wholesale Society. What is it? Manchester: Co-operative Printing Society: 2). The purpose of the CWS was largely federalist: improving the situation of the stores and their consumers. To counterbalance this initiative, the individualists, with leading nonconformist co-operators like Holyoake lending them their support, initiated the formation of a central organisation in London in the 1870s, first known as the Co-operative Central Board and later coined the Co-operative Union. The Co-operative Union furnished legal advice, published literature and propaganda, promoted cooperative education, and organised the Annual Congresses, held every spring from 1869. Leadership of the Board was largely in the hands of the Christian Socialists: the annual conferences were used as a counterweight for the CWS and as a platform for Christian Socialist propaganda about working class union and co-operative workshops. In 1873, the CWS entered manufacturing: the first factories were built and run as ordinary joint stock companies. While these companies at first held to the Christian Socialist profit-sharing principle, already in 1875 did the CWS directors decide to abolish all profit-sharing principles and to return profits to consumers via the dividend scheme. As we shall see later, the so-called “banking dispute” between federalists and individualists was instrumental in bringing about this turn.

<sup>389</sup> The banking dispute ushered in the demise of the Christian Socialists in the movement. The failure of the Industrial Bank, an industrial partnership that asserted to be co-operative, was instrumental in this. This bank was established in 1872 by a co-operator from Newcastle, J.H. Rutherford. Well-known as the managing director of the Ouseburn Engineering Works near Newcastle – one of the new industrial partnerships, Rutherford started the Bank for motives that differed markedly from the Christian Socialist banking enthusiasts. Most notably, his main motivation seems to have been to finance his Engineering Works. In contrast to the Christian Socialists Neale and Ludlow, the leading co-operator Holyoake applauded the initiative, stating that Ludlow “must have been gratified” by Rutherford’s interest in a Co-operative Bank. In addition, Rutherford shared the Christian Socialism antagonism vis a vis the CWS; this made it easier to opportunistically identify Rutherford’s initiative with the latter. Rutherford only aggravated things by consistently downgrading the CWS and its new Deposit and Loan Department. What is more, in spite of Neale’s and Ludlow’s strong disapproval of individual shareholding in federal schemes, Rutherford continued to claim that his initiative was representative of the Movement’s true ideals. By combining the Christian Socialist idea of profit-sharing with the idea of individual stockholding,

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Rutherford's initiative had the effect of helping to scapegoat the Christian Socialists as "individualists", especially when already in 1876 the Industrial Bank went bankrupt (cf. Backstrom, 1974: 102-128).

<sup>390</sup> From the 1880s onwards, Fabian leaders such as Beatrice Potter definitively closed the Christian Socialist chapter. Armed with the catchphrase "the inevitability of gradualism", the Fabians attacked the so-called 'idealists' in the Co-operative movement that sought to revive producer co-operation. Instead of producer co-operation they favoured a consumer co-operative takeover of the whole of industry. In this takeover, workers would be relegated to the role of wage-earners protected by trade unions. According Beatrice Potter and Mitchell – chairman of the CWS argued – profit-sharing methods were not necessary, since the dividend method already had done away with profits, and federal consumer co-operation was able to organise production efficiently on behalf of consumers (Birchall, 1994; Potter, 1899).

<sup>391</sup> Banking business under the I&P Act was only permitted if the society did not have withdrawable share capital. In fact, this limitation still is applied in the consolidated I&P Act of 1965.

<sup>392</sup> While the Co-operative shops associated with the Co-operative Wholesale Society were much more successful than the Co-operative Bank, the membership and total assets of the Co-operative Wholesale Society were much smaller than the ones mobilized by either other special-purpose friendly societies – be it savings banks, fire insurance societies, ... - or trade unions. This despite the fact that one of the leading principles of Co-operation had been the principle of total inclusion: women, children, men, all were free to associate and take part in the life of the Co-operative movement (Gurney, 1996: 89). Several elements caused this, both political and economic. First, the population targeted by the co-operative movement was fraught with antagonism, be it between the labour aristocracy and the unskilled workers, the "respectable" and the "roughs", the Anglican, the Nonconformist or the Catholic Irish. Not only were antagonisms between the "respectable" leadership and the "rough" rank-and-file hampering total inclusion. In addition, leadership itself was divided between the nonconformist-liberal Co-operative Wholesale Society in the north and the Anglican-conservative Co-operative Union in the south. This is the political reason why co-operation failed to attract the poorer workers before WWI. The economic reason of course is that the dividend scheme was not workable for poorer people with little to spend, let alone to save or invest in a dividend return.

To put things in perspective, the membership of friendly societies increased from under a million in 1815 to over three million in 1849 and to an estimated four million in 1872, heavily concentrated in the industrial counties of the north and midlands. Already at the mid-century about half the adult male population belonged to friendly societies of one kind or another. In 1872 the friendly society movement counted four times as many members as the trade unions, and twelve times as many as the co-operatives societies. (Perkin, 1969: 381-383). The known membership of those friendly societies which made a return in 1872 was 1,857,896; that of trade unions making a return 217,128 and that of co-operatives 301,157 (Gosden, 1961: 7).

<sup>393</sup> Wolff added: a main disadvantage of the English situation is that "we are handicapped by our free institutions, which produce a more shifting population, whose movements cannot be so steadily followed." By this he also meant that the role of religion and local communities was less crucial as a mobilisation factor in twentieth-century England. In addition, English banking legislation forbade banking by societies with "withdrawable shares".

<sup>394</sup> In England employer organisations, Trade Unions, working and middle classes all approved of the benefits of free trade and the Pax Britannica. So, the investigation of the 1886 Royal Commission on Depression in Trade reported that Free Trade and nongovernment intervention were consistent even with the view of the family business constituency. Finally, in contrast with for instance the US and the Netherlands, three out of four English citizens lived in towns by the turn of the twentieth century, thus removing most of the grassroot support for an urban-rural divide – though an elite struggle was certainly waged in terms of an « urban citizen » – « landed interest » divide (cf. Freyer, 1992a: 13-14).

<sup>395</sup> By 1885 the struggle for religious equality – the gradual disestablishment – was almost complete. With the ascendance of nationalist and imperialist sentiment from the 1890s, the role of religion changed to a mediating factor for internal national antagonisms, to a uniting factor in face of international "imperialist" competition (cf. Gilbert, 1976: 206-207). While Nonconformist adherence dwindled, the Church of England experienced increases in communicant participation between 1885 and 1914 which were more rapid than population growth in England. In fact, already from the 1870s, the number of radical nonconformity adherents amongst the leading middle-class businessmen gradually declined. What is more, a split amongst the nonconformists became apparent between the lower-ranked Methodist radicals and the middle-ranked, status-quo oriented Wesleyan Baptists.

<sup>396</sup> For a picture of the evolution of formal religious affiliation – as against active membership – see Appendix C.

<sup>397</sup> The British Empire -- which according to contemporaries had been acquired in "a fit of absence of mind" was now seen as a prized asset, even a life-or-death necessity. And its health demanded some centralisation of

economic decision making. How this centralisation happened, however, was largely unplanned, as a result of piecemeal change and different dynamics coming together (e.g. Robinson and Gallagher, 1953).

<sup>398</sup> **Regional GDP/Person (Britain = 100)**

<i>1871</i>	<i>1881</i>	<i>1891</i>	<i>1901</i>	<i>1911</i>	
South East	115.2	117.8	120.1	121.7	124.6
London	141.9	139.0	150.4	154.9	165.6
Rest of SE	89.5	93.9	86.9	87.4	86.3
East Anglia	97.0	92.3	83.0	76.9	76.8
South West	88.6	92.1	84.9	81.5	85.7
West Midlands	84.8	84.5	79.6	81.7	78.4
East Midlands	106.2	100.4	96.4	90.3	90.6
North West	106.0	102.0	100.6	97.9	97.2
Yorks & Humb.	94.1	92.9	92.6	91.9	89.5
North	91.3	85.1	85.4	82.9	79.2

<sup>399</sup> For example, after the 1902 Secondary Education Act, the hitherto underprivileged, new middle classes were allowed to construct for themselves an education system based on the model of the Victorian public school (Hobsbawm, 1968: 141). This system would help to institute a rigid divide between the working-classes and the higher classes. Public school education, while historically initiated by the Anglican Church for disadvantaged children all around the nation, from the latter part of the eighteenth century emerged as a vehicle for independent schooling of children of the upper and upper middle ranks. From the mid-nineteenth century onwards, finally, public schools became vehicles for the mutual accommodation of the lifestyles of emerging business elites and the aristocracy. They became Victorian vehicles of character formation, preparing children of the propertied elites for service in public office, armed forces and colonial government. The anti-catholicism that developed during the English Revolution Reformation lingered in the nineteenth century, though in an increasingly latent fashion. Despite the legal emancipation of Catholics in 1829, and the – fragile – union of Dissenters and Catholics in their bid against Establishment, anti-catholicism was still very much present.

<sup>400</sup> By focusing on the social blessings of free trade and cheap government, Gladstone made a moral case for the government's disengagement from the daily lives of its citizens, and strengthened it by compelling all of the enfranchised to pay income tax to the Treasury in recognition of the financial duties attached to citizenship.

<sup>401</sup> The prime concern of Treasury officials was with the use of taxes to extract revenue for the state rather than to shape the economy and society, or the desire to stimulate growth or create justice. Of course, politicians did wish to use the tax system in pursuit of different normative assumptions about the desirable shape of society, as well as with an eye to more immediate electoral advantage. On the whole, officials condoned the politicians' programmes, always provided that they did not threaten the apparent equity of the fiscal system and did not undermine consent (Daunton, 2002).

<sup>402</sup> They also advocated paying off the debt through a sinking fund.

<sup>403</sup> Inland Revenue, 1922. "Industry and the Weight of Taxation", *Memorandum by the Board of Inland Revenue*. Public Record Office, T1711203, C.P. 3649; 1972 Report of the Committee on National Debt and Taxation. Cmnd. 2800.

<sup>404</sup> Remarkably, this principle was often adopted by English courts too in their rulings about anti-competitive cartels.

<sup>405</sup> This official position was more homogeneous than for instance in the US, where many civil servants chafed with the administration and the institutional structure was more fragmented, with competing centres of power between different branches of government and within the executive (cf. Smith, 1993: 6-11).

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<sup>406</sup> In the middle years of the nineteenth century, many economic assumptions were suddenly called in to question, including the usefulness of customs duties. On a few occasions, notably in 1842 and in 1860, some reforming Minister made a bonfire of dozens or even hundreds of these taxes, with negligible loss of revenue (Douglas, 1999: 149-150). In the closing years of the nineteenth century and the early twentieth century, there was a swing the other way. Customs duties came into favour again in certain quarters, though for two very different reasons. Some people perceived that direct taxation posed a serious threat to the wealthier classes, and spoke of 'broadening the basis of taxation'. Other people, who were fearful of the effects which foreign competition might have on their livelihoods, moved to Protectionism under the new name 'Tariff Reform'. However, the major change in fortune for customs duties did not come from either of these reasons, for in the 1914 was a spate of new customs duties was applied in order to discourage imports of luxury goods and thereby to save shipping space. These taxes, the 'McKenna Duties' were continued after the war, save for a brief interruption in 1924, and gradually acquired 'respectability'. The efforts of the City to acquire a role of arbiter of "neutrality" were remarkable in this regard. Thus, the City against any short term logic opposed the Liberal Party in its defence of the liberal international economic order and what have traditionally been conceived as the City's central interests in this order. Indeed, having to choose between the economic costs of tariff reform and the political threat of socialism, the City of London had uncharacteristically decided to endorse tariff reforms. In addition, given, on the one hand, the City financiers' disdain for the "social question" and, on the other hand, the move of Edwardian liberalism towards policies of progressive taxation and social reform, further alienation between the Liberal Party and the City was the result (cf. Howe, 2004: 144).

<sup>407</sup> Priority was given to compliance and balance - to ensure that taxpayers paid with a minimum of resentment, and that taxes were not seen as offering selfish advantages to one group over another. Indeed, the political programmes might even sustain consent and protect the revenue by adjusting the tax system to changing electoral and political circumstances. Thus general tax breaks to family men were accepted by the Treasury and Inland Revenue; any scheme which offered more specific tax breaks and loopholes was firmly opposed as a threat to the revenue and to the fairness of the fiscal regime (Daunton, 2002: 362)..

<sup>408</sup> As noted by Weber (1958: 100), the aristocratic, landed families and the king controlled the patronage of an immense number of election boroughs until the passing of the Reform Bill in 1832.

<sup>409</sup> This is how the role of the mass democratic electorate since its beginnings in 1867 and 1884 has to be interpreted. As argued by Joseph Chamberlain in 1886: 'The problem is to give the democracy the whole power, but to induce them to do no more in the way of using it than to decide on the general principles which they wish to see carried out and the men by whom they are to be carried out. My Radicalism, at all events, desires to see established a strong Government'. The Webbs, for their part, argued that the people as a whole do not exist: the people are a complex of minority interests. The Webbs joined Whig leaders in demonstrating how fears that democracy would lead to mob government had been proved false (Read, 1964: 208). They pointed out that the more the Welfare State had advanced the more it had become interested in particular rather than general categories, with the consequence that legislation and administration had been forced to become more specialised... 'legislation and governmental administration necessarily become, in all highly-organised communities - however Democratic they may be - more and more the business of elaborately trained experts, and less and less the immediate outcome of popular feeling. Nothing was more inexact than the forecast that so alarmed our fathers, that Democracy meant government by the mob. The more strong and effective becomes the Democratic feeling, the more will legislatures and governments be driven to grapple seriously with the real grievances and needs, not of the people in the abstract, but of the people as they really are' (Webb, 1908: 662-4).

<sup>410</sup> Multiple votes from property and education were greatly reduced but not wholly abandoned, and Conservatives continued defending them on grounds of superior fitness until 1948. Until 1928, similar considerations restricted women's enfranchisement to those over 30, who were ratepayers in their own right, or ratepayers' wives. This emphasis on maturity, property and marriage was a very different reward for war-service from that accorded men - since the 21 to 29 year-olds excluded were most likely to have taken paid war-work, as well as being dangerously unattached to men. Both considerations rendered their fitness suspect ...reinforced by the perceived need to get women back into the home to replace the lost generation (Garrard, 2002: 97).

<sup>411</sup> Certain sorts of fitness still received additional reward by virtue of their business and university votes. Indeed, so persuaded were politicians by these traditional notions of quality that graduates were actually granted five further seats in 1918. In the early 1920s business voters numbered around 200,000 (217,000 by 1945) and graduate-electors 60,000. Property and education were thereby rewarded with up to two votes (additional to that gained by simple residence). Effectively, it also rewarded manhood and Conservatism (the business vote alone is believed to have swung constituencies rightwards on 18 occasions between 1922 and 1945, quite aside from the two seats regularly bequeathed by the City of London). (Garrard, 2002: 82).

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<sup>412</sup> Calculated from 1913, given that deposit-taking had not really started before policy-wise and in face of the dominance of the consumer co-operative dividend.

<sup>413</sup> Most Dutch commercial banks from the onset focused on an « old Regent » clientele of investors in the City of Amsterdam. Also, Dutch banks adopted the joint-stock form relatively late, and remained largely divorced from industrialisation dynamics before the end of WWI – with the exception of the Twentsche Bank.

<sup>414</sup> The limit to the rates which they could allow was, of course, governed by the return which they could themselves earn, and hence deposit rates came to be regulated by Bank rate. Remarkably, the first London joint-stock banks offered as much as 1 percent below Bank rates. These rates were much higher than could be found among the country banks, while even Lombard Street and the West End preferred to offer fixed rates on fixed deposits. Clearly, competition was undermining the old ways (Clegg, 1969: 165).

<sup>415</sup> The existence of a large capital, contributed by local men known to be of substance who were fully liable for the bank's debts, constituted a safeguard for a bank's stability. Such shareholders could be relied upon to confirm the independence of the institution « by transacting all their business with it, by circulating its paper, by bringing the weight of their influence with their commercial acquaintances to bear upon it, and by supporting the bank at the period of any run or panic » (cited in Thomas, 1934: 98-99).

<sup>416</sup> « The promoters of the early banks aimed at getting local shareholders of good repute and known wealth, especially members of the local 'resident gentry' who were thereby brought to bring in favour of the bank all 'the influence and weight of their characters and station to give it importance, credit and success' »... »the connection of the local gentry and wealthy citizens not only added to the public security, but also gave the bank management confidence....To this end most of the banks from the outset adopted the principle of giving their shares a high nominal value, and of calling up only a portion of that value, keeping the surplus as a reserve available for the use of the directors when required, the main reason for this being that there was a disinclination among the landed or gentry classes to take up shares in a bank if the nominal value was too low. Shares of low nominal value tended to be taken up by men of small means and small repute, and it seems that the gentry classes did not always care to mix themselves, even in the matter of bank investments, with those humbler members of society (Thomas, 1934: 99).

<sup>417</sup> For the difference between bank notes and deposits is that the first are guaranteed by and redeemable against gold reserves, the latter not.

<sup>418</sup> This created a niche for a restyled brand of reform-oriented Whig bankers in London, willing to “rescue” the provincial joint-stock banks from stigmatisation. In fact, already from 1833 on these Whig bankers had tendered their services to willing provincial banks (Alborn, 1998: 57-58).

<sup>419</sup> Working and lower middle class families with members in continuous employment had never had more money to save and spend.

<sup>420</sup> So, total deposits with the Liverpool and Manchester savings banks climbed from £3 million each to almost £4 million (Moss and Russell, 1994: 106-109).

<sup>421</sup> From the evidence given by the secretaries and directors of BSs before the Royal Commission of 1871, we learn that many BSs operated largely within the working classes, though some derived their capital from investors of all classes (Report of the Royal Commission, 1871; cited in Moreh, 1966: 168).

<sup>422</sup> The number of shareholders of building societies in 1938 was about 3.7 times as great as that for 1922. The size of the average shareholding increased by 1.8 times over the same period (Cleary, 1965: 188).

<sup>423</sup> There was an increasing disconnect between Co-operative leadership and membership: the leadership was becoming increasingly isolated in its prioritisation of a “Co-operative Commonwealth” and membership was becoming more and more indifferent in its prioritisation of “cash value”.

<sup>424</sup> Retail co-ops recruited very disproportionately from amongst the skilled and secure workers, i.e. the labour aristocracy. Co-ops were well aware of this, and saw it less as a problem than the healthy result of their desire for respectability and financial probity. Indeed, they were resistant to broadening their membership ; when attempts were made before 1914, as the Co-operative Women's Guild found, they generally failed...That participation in civil organisation was most richly evident amongst skilled and secure working men is unsurprising. On the negative side, friendly-societies and union membership required the ability to pay regular subscriptions – necessarily if the organisation was to survive and fulfill its functions. Only relatively well-paid, or at least secure, workers could afford these. Friendly societies even fined members for non-payment. Co-operative societies' prohibition on credit, and emphasis upon the quality as much as the price of what they sold, similarly disadvantaged those without secure and reasonably substantial wages. There were also more positive reasons for the participatory predilections of such workers. Genuinely skilled work required a series of informed decisions about what to do ; thus the use of intellectual as well as manual facilities. Once required to exercise them, their possessors were quite likely to apply them to other areas of life. Skilled jobs often permitted some leisure, and

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thus opportunities to make such applications. Such workers also often saw their skill as a species of « property » (Garrard, 2002: 178; Joyce, 1980).

<sup>425</sup> The automatic character of the dividend for many decades provided Co-operative members with a remarkable calculability in face of income irregularities: Indeed, as a method of democratic sharing the dividend was a recognised means by which individuals were able to negotiate the family budget. The dividend was paid out on a regular basis - originally quarterly, but latterly half yearly – according to purchases made. The successful dividend practice was on account of the Consumer Co-op outlets, however, at a distance from the Banking department of the Co-operative Wholesale Society.

<sup>426</sup> The Co-operative dividend embodied a mixture of nonconformism and liberalism – “consumption for the greater good” – that was well-matched with the dominant tradition of democratisation of the third quarter of the nineteenth century namely voluntarism, but much less with the rise of Anglican imperialism, National Efficiency and the emergence of a new class of white-collar workers. Still, during the second and third quarters of the nineteenth century, Liberal elites saw Co-operatives as a prototype of how to the market enabled outsiders to achieve respectability through “democratic” means. The City establishment was less enthusiastic about the Co-operative dividend, as it represented a hidden form of savings in the hands of Co-operative Commonwealth zealots. Still, they were not overly alarmed, as the extension of retail credit was constantly criticised or underemphasised by Co-operative leaders themselves.

<sup>427</sup> Walter Bagehot’s well-known definition of the qualities required for success in banking springs to mind here: “any careful person...who is experienced in figures and has real sound sense, may easily make himself a good banker...banking is a watchful but not a laborious trade” (Balfour, 1950: 117).

<sup>428</sup> As a result, by the mid-1970s more than 90 per cent of the National Trade Union business was handled by the Co-operative Bank.

<sup>429</sup> Some other labour organisations, clubs, mutual aid societies, etc... followed the lead of the trade unions.

<sup>430</sup> Founded in 1872, the growth of the CWS bank was very slow. In 1873, total assets of the CWS Bank amounted to £188,672, in 1882 they totalled only £214,256. By 1892 some progress had been made with a total amount of £605,623. Only a few hundred accounts were held in this period, mostly by co-operative societies (see table 7.2). That, apart from a low resource base, the CWS Bank did not enjoy much discursive legitimacy either is very clear: it is estimated that as late as 1907 75 percent of the societies affiliated to the CWS did not hold an account at the CWS Banking Department (Redfern, 1938: 403).

<sup>431</sup> This amalgamation movement has made banking safer – banks are no longer dependent too much upon the wealth of one area – but it has also made it much more monolithic, despite elaborate attempts to maintain a measure of local freedom. The history of the Midland bank, the name of which reveals its provincial origins, may be taken to illustrate the trend. It started in 1836 as the Birmingham and Midland Bank; but in the later years of the nineteenth century it began to expand rapidly and to absorb other banks, finally in 1891 entering the capital by taking over the Central Bank of London. The Midland was already three times as large as this London bank, but the Londoners made it a condition of amalgamation that the head office of the combined banks should be in London. A January half-yearly meeting was to be held in Birmingham and a July half-yearly meeting in the capital, but in 1912, significantly, the Birmingham meeting was given up, and the centralisation of the Midland in London was complete. By the 1960s the only large bank with headquarters outside London was Martins of Liverpool. The District Bank, with headquarters in Manchester, became linked with the National Provincial Bank in 1962; this merger produced little local opposition, in contrast to 1904 when Manchester’s spirit of provincial independence was still strong and prevented an attempt to merge the District Bank and the Lloyds Bank. The old joint-stock bankers’ adage “Satan controls the hearts of Londoners” clearly had lost its resonance (Read, 1964: 221).

<sup>432</sup> Barclays, one of the biggest banks, was formed from a number of private banks.

<sup>433</sup> Twenty persons who left substantial mark in the history of the Lloyds Bank (before WWII): « of the twenty, nine were sons of bankers and three others married bankers’ daughters. Nine had sons or sons-in-law who followed them in to banking. Seven were born Quakers ; these belonged mostly to the earlier generations...Including the one born a Quaker, eight of the twenty belonged to the Church of England ; two others (both in Birmingham) were Unitarians. Only three went to a university...Three were active in politics, all of them Conservative » (Sayers, 1957 : 61).

<sup>434</sup> Finally, the Institute would soon prove to be a handy means of cooperation between banks: it provided a minimum standard of technical competence for the growing number of salaried clerical staff in banking.

<sup>435</sup> While the smaller, terminating societies became more and more an isolated working class endeavour, the larger permanent societies almost invariably came under the executive direction of the respectable middle classes.

<sup>436</sup> [Anglican democracy entails a commitment to] a Commonwealth that embraces all – all classes, all sections, all interests – in a common life. The glory of our national history is a glory shed by the light of the vision of the

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Commonwealth...the light has been often been dimmed...when a landed class, in the course of the sixteenth century, pursued low aims of private gain. It was dimmed again when a capitalistic class, during and after the industrial revolution, followed a policy of individual enrichment, and when the working class in a just resentment began to adopt a policy of retaliation and class warfare...The readjustment and reconstruction of the national economy in the true spirit of the Commonwealth is the supreme task of the future...wealth should be made to serve the Commonwealth, and industry to produce not wealth for a few, but welfare, abundant welfare, for all (Bentinck, 1918: 137-139).

<sup>437</sup> The individualists, on the other hand, while being highly critical of the trade unions, not only needed the unions' support to make co-operative workshops workable, but also were in dire need of the unions' funds to make their concept of a people bank viable.

<sup>438</sup> From the end of the nineteenth century, a consistent theme amongst leading co-operators was the opposition they drew between what they perceived as the 'purifying' and morally elevating effects of participation in their movement and the degenerate and vulgar forms of mass entertainment favoured by leisure entrepreneurs. The consistent tendency of these - mainly nonconformist - leaders to antagonise 'low' culture as debasing and demoralising, and to relentlessly emphasise the improvement of manners and morals, undoubtedly created distance and suspicion amongst the less financially independent working class strata. In addition, their attempts to build a rational alternative to "irrational" capitalist modes of pleasure and entertainment failed: the working classes retained their autonomy in the sphere of recreation. As we will see in the next chapter, in the longer term this failure was to have particularly harmful effects for the position of retail co-operatives. While the moral economy of co-operation no doubt lingered on within many local communities during the interwar years and beyond. But the overwhelming tendency remained that young working-class consumers were increasingly attracted to the delights and diversions of an expanding mass culture, which narrowed their role to that of passive reception (Gurney, 1999: 76, 141, 162).

<sup>439</sup> In a study of the potential of co-operative banking in Great Britain, Barou (1932) calculates that in 1928 wage-earners - equivalent to small investors for the purpose of this study - in Great Britain represented at least 75 percent of the total population. While their total resources amounted to only 10 to 14 per cent of those of the whole nation, and while the average savings of the individual wage-earners were very small, the total of these savings represented approximately half of the total amount of the banking deposits in Great Britain. Of a total savings amount of £1,146 million only £100 million originated from co-operative societies. The rest of the amount was accumulated in the Post Office Savings Bank, Trustee Savings Banks, other Industrial and Provident Societies, Friendly Societies, Building Societies, Trade Union Funds and Industrial Assurance Funds. Barou (1932: 37) concludes that if "even part of these savings could be accumulated in co-operative institutions and usefully employed, they would provide a great asset for the betterment of conditions of the working classes". It were especially the savings institutions that played an important role in the accumulation of working-class savings: the total amount of deposits at British savings institutions in 1928 amounted to 70 per cent of the bank deposits. These deposits were mainly Invested in State securities. Not surprisingly, this prompted Barou (1932: 41) to conclude that "the 'poor' could find much better use for their money in co-operative credit institutions, but the latter are not popular enough to attract the bulk of their savings".

<sup>440</sup> The argument of Downe goes even further than this. He attributes the price and unemployment crisis of the 1920s to Commercial Banks: "the control of industry is passing rapidly into the hands of the financier, until the money power invested in a score of men enables them to shut down the whole of a country's employment at will". Therefore "if we are to escape from our bondage, study of money questions, especially finance, is essential" (Downe, 1921: 3).

<sup>441</sup> What were the avowed reasons for the clearers to move into multinational banking ?

From the major clearing banks, Barclays came closest to having a strategic justification for its foreign expansion. The chairman F.C. Goodenough agreed with the widespread contemporary view that English manufacturers would need the active assistance of their bankers in postwar world markets. In order to give this assistance Barclays needed foreign branches. Barclays invested in the Anglo-Egyptian Bank and the Natinoal Bank of South Africa. Lloyds, on the other hand, justified its acquisition of the London and River Plate Bank in 1918 by the argument that it could thereby better serve its customers in Latin America. Although Montagu Norman - governor of the Bank of England - opposed the overseas expansion of the clearing banks, he encouraged Lloyds to acquire Cox and King in 1923. As became obvious with the mobilisation of support of the clearers to Anglo-South American after 1931, Norman hated bank failure even more than the transgressing of self-imposed market boundaries (Jones, 1990: 46-47).

<sup>442</sup> As the independent English multinational banks were mostly concentrated in one single region or even country, they were highly exposed to nationalistic sentiments in that particular foreign area. In their bid to reduce risks they were eager to diversify by entering into geographical mergers or at least acquire a clearing bank as a

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shareholder. The reasons for overseas bankers to ally with clearing banks were obvious ; this would provide them with a secure access to funds at a time when uncertain conditions made capital market agents less willing suppliers than before 1914.

<sup>443</sup> Banks in Latin America and the West Indies in particular felt the need for such diversification, and actively sought mergers and alliances.

<sup>444</sup> Although Montagu Norman – governor of the Bank of England – opposed the overseas expansion of the clearing banks, he encouraged Lloyds to acquire Cox and King in 1923. As became obvious with the mobilisation of support of the clearers to Anglo-South American after 1931, Norman hated bank failure even more than the transgressing of self-imposed market boundaries (Jones, 1990: 46-47).

<sup>445</sup> Forced to commit to a 2.5 % on all deposits, its appeal entirely depended on the Consol interest rate.

<sup>446</sup> To teach the virtues of saving to children the POSB distributed stampbooks to thousands of local schools.

<sup>447</sup> By 1900, the total sum of deposits at Post Office Bank stood at 135m. Compared to this figure, the £1,629,271 accumulated by the Co-operative Wholesale Bank appeared bleak.

<sup>448</sup> The Trustee Savings Bank Association was established in 1887 « to watch over and protect the interests of depositors and to provide the means of affording the help of advice and cooperation in matters of a general character in which savings banks or their depositors may be interested » (Robie, 1992: 16).

<sup>449</sup> In 1926, the government had set up the so-called “Bradbury Committee” to review the formation of municipal savings banks. One of the recommendations made by the Committee was that, rather than establish new savings banks, the TSBs should be encouraged to expand. Actually, this tendency had become apparent as early as the 1890s. Indeed, the TSBs for at least half a century carried the burden of the “old savings bank deficiency”. This deficiency consisted of three elements, two beyond and one within the authority of Savings Banks. On the one hand, Parliament had deliberately pursued a policy of attracting savings bank depositors with an “uneconomic rate of interest” in the early years. On the other hand, the savings bank moneys at times had been invested and sold by the National Debt Commissioners in pursuance of “state policy” . The purpose of securing the best income for the Savings Bank Fund did not have priority in these instances (Horne, 1947: 272). Finally, these two elements contributed to the third: the fraud by trustees that led to the scandals of the mid-nineteenth century and the establishment of Post Office Savings Bank a decade later.

<sup>450</sup> Confronted with falling prices, interest rates and property values, building societies reacted by maintaining mortgage rates. While this allowed them to attract increasing volumes of savings, falling property values and the rising volume of surplus funds meant that demand for loans backed by adequate mortgage security was inadequate to absorb the societies’ funds. Hence, building societies extended their business into increasingly risky areas. Competition between building societies soared in the form of more generous advances against poorer security, an extension into increased finance of commercial enterprises and an increase in more purely banking business. Not surprisingly, as a result, many building societies ran into difficulties. The demise of the societies “Liberator” in 1892 and Birkbeck in 1911, shook investors’ confidence in the building society movement. Following a further Building Societies Act in 1894, the boundaries of trustworthy building society business were more sharply delineated from other financial activities. This allowed the movement to recover its membership and asset totals by 1919.

<sup>451</sup> Starting with Owen’s self-sufficient agricultural communities, provision of housing for members has always been a major concern for the co-operative movement. Not wanting to stay absent in the housing market, the Rochdale Pioneers set up a Land and Building Company in 1861 to provide for co-operative housing on its own lands. In addition, the Rochdale Pioneers set up an independent Co-operative Building Society, later to change its name to Nationwide Building Society. This does not mean that building societies should be considered a part of the Co-operative movement. Indeed, English building societies, while having originated in the urban movement of mutual self-help, were quite different entities than co-operatives, both in political and economic terms (Barou, 1932). For one, in contradistinction with the building societies, the Rochdale Equitable Pioneer Society preferred to directly build and provide housing on its own lands . On the other hand, the member versus capital ownership problem was solved in an almost opposite way in Building Societies. The ultimate proof of the profound difference between the Building Society and Co-operative movement is that the Co-op Board deemed it appropriate to grant the Co-operative Building Society not only legal independence, but also political, as the Society’s affiliation to the BSA, an association pursuing very different purposes than the Co-operative Union, demonstrates.

<sup>452</sup> As a result, a given rate of building society interest represented a higher gross (of tax) rate when there was an increase in income tax rates, and it was this gross rate which was relevant to an income tax payer keen to compare the yields of alternative investments.

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<sup>453</sup> The intention of the arrangements was to save the Inland Revenue from routine clerical work in taxing or paying rebates to investors, many of whom did not understand income tax, but they also gave to building society members the advantage of a simple straightforward investment free from tax complications.

<sup>454</sup> The arrangements began in 1895 and continued until 1932 – afterwards the same basic principles were retained on more informal grounds.

<sup>455</sup> The average shareholding shown in the industrial societies varied approximately from £250 to £700 at par whilst the average shareholding in the building society movement as a whole was £208. The returns for the average of the 47 large societies was even larger, and was actually £240.

<sup>456</sup> This in fact meant a movement from local authority – administration through a local court of law – to administration through a central government department (cf. Gosden, 1961: 10). Of course, while at the local level working people had some influence, at the central government level this influence was minimal.

<sup>457</sup> While this would involve an economic decentralization of credit functions away from the Bank of England, it also implied a renewed political centralisation and civic legitimacy for the Bank.

<sup>458</sup> Still, it was not until the cheap money period of the 1880s that real progress was made towards a deposit-rate agreement.

<sup>459</sup> After the near-collapse of the merchant bank Barings in 1890 the debate became more animated again (cf. Pressnell, 1968). By the 1900s, although competitive bidding had still not disappeared, it was usual for the banks in any town to offer similar rates on deposits, and this was coming to be expected by the public.

<sup>460</sup> Courts generally refused to intervene in disputes, taking an "attitude of neutrality towards economic groups struggling for enforcement of their economic aims" which indicated a recognition that economic competition moved faster than competition laws could reasonably change (Freyer, 1992a: 214-215; Pollard, 1962).

<sup>461</sup> All the labour struggles did was to reinforce support for self-regulating, restrictive practices. This was in great contrast with the US, where the confrontation between small and big business continued. While English courts held on to the principles of Free trade and freedom of contract, advocates of small and big business appealed and obtained much more Supreme court intervention. After WWII, British organised labour gave up much of its evolutionist theory and became more concerned about antitrust than its US counterpart (Freyer, 1992a: 324-332).

<sup>462</sup> In England the "rule of reasonableness", while in principle aligned with the old common law doctrine, dating back to Queen Elizabeth, that all restraints to trade were contrary to public policy and therefore void – allowed for a relaxation of this doctrine as needed by the "special circumstances of a particular case"...The principal result was to sustain extensive business self-regulation maintained through loose, restrictive agreements which ensured the comparatively greater control of family firms (cf. Freyer, 1992a: 124).

<sup>463</sup> « Throughout Britain the government was keen to foster the expansion of other independent thrift organisations, which would not make any demands on the Treasury, in the same way that the savings banks and annuities did. Legal protection was given to building societies in 1836 through the Benefit Building Societies Act" (Moss and Russell, 1994: 46-47).

<sup>464</sup> The foundations of TSB's success lay in the heydays of Liberalism. For Gladstone, deposits invested in TSBs provided an extra source of revenue for the Treasury in managing the national debt. This extra revenue enabled him to reduce income tax in 1861. TSBs would retain this reputation of providing an indirect source of income taxation in political circles, long after the Liberal heydays.

<sup>465</sup> Savings banks became especially popular after 1870. The Post Office Savings Bank, more than the older Trustee Savings Banks was responsible for this evolution. By 1871, a decade after the first government savings bank branch opened, the Post Office Savings Bank was administering more accounts in Britain (over 1.4m) than all the Trustee Savings Banks combined. By 1886, it surpassed the trustee banks in that category as well, with over £50m in deposits. As the Post Office system increased in scope, the sort of customers who visited its branches changed. Initially, the Post Office Savings Bank had attracted workers from lower down the economic scale than the trustee bank depositors; its average deposits were half the size of those held by the latter banks. By the 1890s, more lower-middle class customers were looking to deposit money with the Bank.

<sup>466</sup> In 1919, 80 per cent of the households still rented housing from private landlords.

<sup>467</sup> Private rented housing was a matter of urban lower-middle classes anyway, certainly not a core constituency of the « landed » Conservative Party at that time.

<sup>468</sup> The extension of the franchise to this 'lower depth' in 1918, the militancy of unions, and the demands for a capital levy, all contributed to the sense of panic...mobilised by the Anti-Waste League and provided an alternative to the anti-rentier rhetoric of labour. The League won three by-elections in 1921, and

<sup>469</sup> 'We must take counsel', Lloyd George warned Austen Chamberlain, 'lest we find ourselves caught between labour in the North and [middle-class] anti-waste in the South'" (cited in McDonald, 1989: 650).

<sup>470</sup> There was a danger that short-term bills would not be renewed when they fell due, so driving the government to borrow from the Bank of England. credit would expand, purchasing power rise and prices and wages spiral

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upwards in a vicious circle. Such a situation gave power to 'the holders of Treasury bills -that is the banks, the market and to a certain extent, the investor generally - to force the Government at any time to create new credit, and that means the whole cycle of inflation restarted' (cited in Daunton, 2002: 76-77).

<sup>471</sup> For instance, Barclays' self-avowed aim with the mergers and transformation in a public limited company was the preservation of the traditions of private banking within the corporate structure. The preservation of these traditions would be guaranteed by the continuing independence of local management teams (Ackrill and Hannah, 2001: 63).

<sup>472</sup> While population growth had been biggest in the industrial provinces in the first half of the nineteenth century, London and the south-east provinces experienced the highest rate of growth of employment after 1850 and enjoyed the largest per capita incomes in England (Cain and Hopkins, 1987: 2).

<sup>473</sup> This English usage of the word "public" contrasts strongly with the expectations of many English speakers from around the world. Outside the British Isles people usually refer to fee-paying schools as private schools or independent schools; many would assume that the word "public" should imply public financial support. Indeed, in many countries "public school" is the commonplace name for a government-maintained school where instruction is provided free of charge; in England such a school would commonly be called a state school, a local authority school, or a foundation or community school. Usage in Scotland has its own particular nuances; as in England nowadays, there is a tendency to avoid the phrase "public school" altogether, and to speak of "state schools" or "council schools" on the one hand and "private" or "independent schools" on the other. However, contrary to practice in England, the phrase "public school" is used in official documents (and still sometimes colloquially) to refer to Scottish state-funded schools. When the term is applied informally to independent schools located in Scotland some interpret the usage as an Anglicism or a parody of English usage

<sup>474</sup> The multinational banks which operated in countries not settled by Europeans continued to recruit their future executives from Britain, and from a particular social and educational background within Britain. These staff followed a similar career path, working their way up from junior to manager and occasionally beyond. The remained a small group...The smallness of numbers and the similar background encouraged a group identity, corporate loyalty, and willingness to abide – in general – in the tradition and practices of the institution...Public schools, and occasionally grammar schools, were the only sources of recruitment for the British overseas banks...character' assumed an even greater importance after 1914...Common backgrounds, social and sporting links, and lifelong employment bound together the executive staff of the British overseas banks. Formal training was conspicuous by its absence...In the circumstances, it is not surprising that the recruitment of university graduates was not a high priority for banks which prized 'personality' over intellectual ability or academic training (Jones, 1990: 169-170).

<sup>475</sup> As the British empire spread throughout the world in the 18th and 19th cents, another character-forming institution, the Anglican church followed – or in some cases led the way. Two overseas dioceses in 1800 increased to 72 in 1882, and to 450 dioceses (in 28 provinces) in the 1990s

<sup>476</sup> One reason why the Empire came into existence as a collection of colonies each with an identity and a fiscal autonomy of its own was that Britain's predominance in world trade enabled her to fit the colonies into an international trading system, of which she was the hub, in a way that other European colonial powers could not match. In the early 1830s, well before the introduction of self-government in the colonies of settlement, the London private banks began to spread their branches in the shadow of the British flag. Throughout the area of the future Commonwealth they were an integrated private banking network. Surpluses were left with the head-office in London and the policy gradually arose, for commercial convenience, of maintaining a fixed parity between the local currency and the Pound Sterling. Thus the Sterling Exchange Standard arose: that is to say the acceptance of sterling as the ultimate means of international payment. Although down to 1914 London was the unquestioned world banker, there was a tendency for it to become more closely identified with the Commonwealth. Before 1870 foreign countries borrowed more in London than did the colonies. But thereafter the proposition raised by other parts of the Commonwealth steadily increased. By 1914 42% of British overseas investment was going to countries of the future sterling area. Between 1926-1930, nearly 60% was being raised by these countries.

<sup>477</sup> Through a series of acquisitions Lloyds acquired the entire British overseas banking branch network in Latin America as well as a number of branches in India. Lloyds also created a branch network in Continental Europe. Finally, Lloyds took small equity stakes in British overseas banks in New Zealand and West Africa.

<sup>478</sup> Barclays was doing much better than Lloyds in this regard, mainly because it had managed to consolidate its imperial investments; in 1925 the three Empire banks [Colonial Bank (Barbados), Anglo-Egyptian Bank (Palestine, Malta and Cyprus), National Bank of South Africa] – with total assets of nearly £69 million (about one-fifth the size of the group's domestic balance sheet) – were merged into one company: Barclays Bank DCO (Dominion, Colonial and Overseas).

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<sup>479</sup> « Barclays bankers' hearts...were more in the British Empire ... Goodenough and Hambling, in particular, were staunch imperialists ; in 1918-1930 Goodenough served as a member of the India Council, while Hambling was the government-nominated director of Imperial Airways in 1924-30. Barclays senior management was also on excellent terms with Jan Smuts and the leaders of South Africa and other political and business leaders in the Empire and nascent Commonwealth. Like many City men, they found the increasing dependence of Britain on American support in times of financial crisis profoundly distasteful and also perceived the German banks as a serious threat to Britain's international trading position unless an imperial counterweight could be created. Goodenough's wider conception of an imperial trade area with fixed exchange rates remained an impractical dream but, in a more restricted sphere, his vision was concertely expressed by acquisitions » (Ackrill and Hannah, 2001: 81)

<sup>480</sup> 1871. Friendly and Benefit Building Societies. First report of the Commissioners. Minutes of evidence, appendix and index. XXV, vi: p.7.

<sup>481</sup> Winston Churchill (cited in Hodgson, 1929: 5-6): "I have followed with great interest the remarkable expansion of the Building Societies during teh difficult and often anxious years that have passed since 1918...it is a remarkable tribute to the efficiency of the Societies that their loans to houseowners have increased nearly fourfold...As Chancellor of the Exchequer I have constantly in mind the importance of increasing teh nation's savings. Toward this end, the Building Societe shave made and are making a great contribution. Their assistance to thrift is twofold. On the one hand, they attract a large volume of savings by the facilities for investment which they offer, and I am glad to know that the Societies are particularly interested in giving opportunities for thei investment of small sums. Directing these savings towards house purchase, they call into being a new body of savers pledged out of tehir future earnings to set aside a part for the redemption of the Societies' advances. At the present moment some half a million people are in this way saving steadily year by year to become the owners of their homes. The stream of saving thus set flowing by the Building Societies will not stop when the immediate purpose of house ownership is achieved. The habit of saving will survive and the nation will continue to benefit from the work of the Societies long after their primary aim has been attained.

<sup>482</sup> While the Co-operative movement wanted to educate the working classes into a very different type of geopolitical world and internationalism, it completely lacked the clout to do this. The labour aristocracy – which constituted the core of the Co-op movement – had not struggled for an education system infused with the purpose of elevating their status to a more respectable – new labour aristocracy or even middle class – level. The main reason for this neglect again was that co-operators had sought to incorporate three different educational influences: first, nonconformist humanism that was poised against class-conflict – since “God made all men alike” there was only “one true redemption” in the secular world , second, aristocratic notions of independence and internal freedom – leading to the veneration of autodidactic traditions, and third, radical advocacy of working-class specific “really useful knowledge” – in casu the need to teach a working-class version of political economy demonstrating the injustice of social structures. .... Co-operative leaders entrusted the care of education facilities to the minimalist Liberals. While the Liberals had expanded compulsory elementary education, they had also allowed secondary education for workers to disappear . So, before 1870 the autodidact nature of working-class education and the centrality in English popular opinion of “really useful knowledge” had mitigated the negative effects of this lack of respectable education for the working classes, from the 1870's the result was that limited liability companies in all kinds of industries recruited fewer of their leaders from the working class, and more from existing business families, clerks and respectable men already in office. With the decline in industrial opportunities, on the one hand, and the disappearance of educational opportunities, on the other hand, upward mobility for the working class was becoming very limited (Perkin, 1989: 426-427).

<sup>483</sup> The existence of an international and “democratic” intermediary for joint-stock sharetrading, the London Stock Exchange, of course was a major comparative disadvantage for co-operatives. The Owenite financial exchange of the 1830s had gone bankrupt and was not reinvigorated afterwards.

<sup>484</sup> Bankers such as Thomas Attwood personified commercial joint-stock banking for most of the nineteenth century. Far from seeking an image of impartiality and neutrality, such bankers combined the roles of leading provincial politician, leading provincial banker, and leader of popular opinion. The highly local banking system, which made the combination of these roles possible, played a key part in financing the Industrial Revolution and giving the Pax Britannica a distinctly democratic flavour (Read, 1964).

<sup>485</sup> Take for instance this article in the Journal of the Institute of Bankers in 1893 (JIB 1893 XIV (VIII) Gilbert Lectures: 404-405): “I allude to the institutions known as Trustees' Savings Banks and the Post Office Savings Banks. The object of the establishment of banks of this sort was...to afford special opportunities for the cultivation of thrift among a class of the community not supposed to be usually addicted to that virtue, and that object was, undoubtedly, a laudable one, and if their operations were confined to facilitating or encouraging the deposit by the town artisan, the agricultural labourer, or the domestic servant of a portion of his or her weekly

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wages, which might otherwise be expended in less desirable methods, I do not think any of you would be disposed to complain of such a limited and legitimate rivalry to your business... But if one comes to look at the figures set out in the Government returns relating to Trustee and Post Office Savings Banks, one cannot help very much doubting whether the operations of such institutions have not now extended a long way beyond the objects contemplated at the outset, whether the very large amounts which come to their coffers can really have had their origin and source in the savings of the wage-earning class, or whether such banks are not rather, for some reason or other, being utilised by persons for whose benefit they were never designed, and who, but for some advantages, real or supposed, which they derive from taking their money to these particular class of banks might, and probably would, open accounts with an ordinary private or Joint Stock Bank.”

<sup>486</sup> Joint-stock banks were particularly scathing about the democratic passions that seemed to have inspired the Treasury into giving savings banks a preferential treatment. This protest, however, waned as fast as it had waxed. It soon became clear that the Treasury was not such a democratic pioneer after all: it refused the Post Office Savings Bank another raise in interest rates, even though the Bank’s rate of 2.5 % became increasingly uncompetitive after 1900 (Gibson, 1908).

<sup>487</sup> The first group stressed that both « the money in the hands of the Savings Banks, and the money in the hands of the Commercial Banks, belongs to the community » and that « the proprietary, or shareholders’ interest, is minor as compared with the public interest ». Thus, it is normal that « the public within defined limits shall have the choice between an ordinary bank and a Savings Bank ». But « to couple with that choice competitive attractions in favour of the Savings Bank, which are only rendered possible by a total disregard of the canons of sound finance, is a question in which the whole community is interested ». That is because, « to check the growth of the deposits of the ordinary banks is to starve the commerce of the country... until those responsible for the finances of both classes of Savings Banks [Post office and Trustee] hold more cash than they do now to meet sudden emergencies, the practice is not to be commended». In effect, this group argued that « we are in danger of crossing the line that divides economics from politics. The chastening fear of the ballot-box is ever before the eyes of the politician, and he needs to be very sure of his ground before he dare grapple with a problem the consequences of which are wrapped up in obscure considerations of finance. » (Pownall, 1903: 173, 176). In reaction to this group, another group maintained that « this interest question is not for us as bankers at all. The question whether the Government thinks it is good for the State, and for the maintenance of thrift amongst the poor, that they shall pay a little more interest than they can make, is a question as between the tax-payer and the Chancellor of the Exchequer, with which we, as bankers, have nothing to do. It is quite clear that we do not want the deposits of these poor people; they are nothing to us, we are not going to allow interest on them. Therefore, I ask you in this matter to remember that if you express an opinion in favour of rigidly restricting interest to what the Government can make, that you should not do it as bankers, but that you should do it simply as tax-payers » (Harvey, 1903: 204-205).

<sup>488</sup> The establishment of the latter association meant that for the first time joint-stock banks had a « representative body capable of speaking with great weight on behalf of all the banks of the country » (Lord Hillington of Glyns, 1895: 90 cited in Alborn, 1994: 146).

<sup>489</sup> The banking community’s mechanisms for internal consultation, the central role of the Committee of the London Clearing Bankers and the occasional use of the press...

Bankers, to say the least, passive in Parliament, associations preoccupied with problems of a primarily technical order... The government and Treasury alike certainly had connections with the banks other than through the professional associations, some of which were official and others more private in nature... the private links were of two kinds: private consultations and social, friendly and even, in some cases, family relations... it was public knowledge that Chancellors of the Exchequer asked the most influential City bankers for advice, and, even more, that senior Treasury officials were more or less constantly in touch with these same eminent financiers... the bankers shared the same social life as the politicians, frequented the same circles and belonged to the same clubs (Cassis, 1994: 290).

<sup>490</sup> On the contrary, the bankers were acting “solely and absolutely in the interests, not only of those great institutions which are given into their charge, but of the nation itself » (Liberal parliamentary chairman MacLean at the 1921 International Finance Conference at Brussels, cited in Howe, 2004: 147).

<sup>491</sup> Initially only 26 of the 389 trustee savings banks (TSB) became members. The work of the association was to be directed by a Council of Management comprising representatives from not fewer than 14 of the larger TSBs. The day to day affairs were to be guided by a trio of honorary secretaries made up of the actuaries of the Glasgow, Manchester and Liverpool savings banks. But for a long time it remained ineffective in persuading hundreds of small savings banks to speak and act as a single body.

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<sup>492</sup> By separating subscriber-democracy from modern management, building societies from the mid-19th century onwards imitated the moves made by joint-stock banks, namely to cast off their overly “democratic” past and turn their back on direct involvement in local politics (Alborn, 1998: 5).

<sup>493</sup> By default of tangible liberal support, it was up to the “Tory” Christian Socialists to provide Co-operators with the necessary legal protection and autonomy. Through the intervention of Christian Socialists Co-operators were gradually granted corporate rights, be it within the limited, paternalistic framework of friendly societies. In particular, it lasted until 1876 before Co-operatives gained the right to provide financial services, many decades after Savings Banks and Building Societies.

<sup>494</sup> Co-operators would soon feel the brunt of their failure to produce an effective political pressure group. Of course, a Joint Parliamentary Committee was set up in the 1870s, though with little support of either the membership or the nonconformist leadership. After the defeat of Gladstone in 1874, the lack of effectiveness of the Co-operative Committee compared to for instance the Building Society Association became really striking. So, while previous Liberal-minded Commissions had accused Building Societies of abusing their special corporate rights, the next Tory-led Royal Commission not only reaffirmed Building Societies’ distinct corporate status, but also allowed them much more financial freedom than other friendly societies, in particular Co-operatives.

<sup>495</sup> This was especially true because the CWS for a long time failed to convert the trade unions to the co-operative cause. Historically, the Christian Socialists had mostly earned contempt from the unionists, who branded them “utopian idealists”. The banking dispute ushered in the demise of the Christian Socialists in the movement. This was very unfortunate, since Christian Socialists were the only Co-operative leaders with sufficient political currency and willingness to help the Co-operative Bank forward in the tumultuous decades 1870 to 1920.

<sup>496</sup> In contrast with continental working-class movements, English Co-operators – while against excessive profit-making – did neither contest market deficits by political means, nor actively tackle political deficits. Up to WWI and even after, many Co-operative leaders saw the market as a class-neutral institution, the friend of moral improvement and the enemy of the exploitative trade monopolies. During the heydays of the Liberal Party and the Pax Britannica, this non-interventionist strategy fitted perfectly. Far from being seen as a threat by politicians to the established capitalist system, co-operatives became acknowledged as a way of encouraging working class thrift and protecting workers’ savings during these years. For many politicians they were hardly distinguishable from capitalist experiments in profit-sharing and worker participation. Though the Co-operative movement supported the Reform Bill of 1867, it can hardly be said to have agitated for it; the movement was more concerned with its own organisational problems (Youngjohns, 1954: 55). Nevertheless, before 1867 the Co-operative Societies were entitled to nominate voters if the rateable value of their premises was of £ 10.

<sup>497</sup> With regards to fiscal policy, the Co-operative Party consistently favoured the abolition of tariffs, subsidies and restrictions upon the flow of trade and was opposed to commodity taxation in general. On the other hand, with respect to competition policy, the Co-operative Party continually pressed for the restraint of trusts and combines, and opposed the national economic planning of the “thirties on the grounds that being based on the profit-making motive it would ‘perpetuate waste and existing inequalities of wealth and income, concentrate economic control in the hands of powerful self-seeking corporations and encourage nationalism and war’” (Co-operative Party Conference Report, 1935; cited in Bonner, 1970: 191).

<sup>498</sup> This was for instance the case when the Co-operative MP Alexander raised the issue of “profiteering” as symptomatic of the rise of trusts and price-fixing associations in the House of Commons in 1922. While the Labour government had been very slow to act upon Alexander’s call, after the fall of the Labour government in 1924, the Conservative government decided to take up the issue. A commission was set up to investigate the issue. However, despite interviewing several leading Co-operators such as Alexander, the president of the Commission, Geddes, refused to take notice of their grievances. On the contrary, Geddes concluded that Co-operation “was really indistinguishable...from any big capitalist trust” (First Report of the Royal Commission on Food Prices [Cmd. 2390] Volume II, Minutes of Evidence, 1925: 182.); there actually was no real difference between “profits” and dividend “surplus”, “consumer” and “member”. Not surprisingly, captains of industry such as the Vesty brothers – who controlled the Union Cold Storage Company Ltd. – were completely exonerated of any “dishonest trading or of profiteering against dealers in wheat, flour, bread or meat”.

<sup>499</sup> In fact, there existed a substantial discrepancy between the positions of the Labour and Co-operative Party with regards to how the relation between the political and the economic should be managed. While the Co-operative Party favoured the extension of consumer co-operation, Labour made plans to increase the sphere of wholesaling, to the dismay of local Co-operative Societies which felt their sphere of action was being limited.

<sup>500</sup> As a result of this failed attack – and the blocking of Alexander’s Trust and Combines Bill, leading Co-operators emphasised even more the need of state regulation of the market, and in particular “monopolies”, so as to protect the rights of consumers. As could be expected, this insistence found only resistance amongst the

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Conservatives: their view of the company was more influenced by a traditional view of social order than by free market ideas. More importantly, it found only lukewarm support from the Labour Party, which by then had become the big brother of the Co-operative Party. This was not entirely surprising, as politicians had got used to associating cartels in for instance the banking sector with the public interest. From a larger perspective, the agenda for company reform centred entirely on the need for greater publicity and disclosure, and remained firmly within the frame of reference provided by existing company law (see also endnotet 195). So, the Co-operative Union, insisted that for companies “registered under the Companies Acts, including private companies, it was necessary in the public interest to require full publicity in accounts in order to prevent the exploitation of the consumer.” Also, the Union expressed “the necessity for greater stringency in the auditing of the accounts of public companies” (Co-Operative Congress Report, 1929. Co-Operative Union; Manchester 92).

<sup>501</sup> Neither the Labour Party and the trade unions, or the Co-operative movement developed any clear strategy regarding the framework within which companies operate, appropriate changes to their internal organisation, and the social responsibilities they should assume. The movement for constitutional reform of the “firm” in the nineteenth century was not sustained. While the trade unions sought to drive better bargains with employers, they rarely endeavoured to get a direct voice – for instance a seat – in the governance structure of economic organisations, mainly because their members did not push them on this issue (Phelps Brown, 1959: 214-215). Concerns for trade union independence kept trade unions from establishing firm commitments to worker representation on administrative and management Boards. Instead, the Labour movement in the 1920s turned to issues of socialisation and the need for public ownership as the only viable means to secure the public interest in industry. Though Labour leaders recognised large sections of private industry were there to stay, most of them concentrated their activism on the socialisation of ‘key’ industries, and on the role of planning bodies such as the ‘supreme economic authority’ or the National Investment Board. Voices raising the issue of the re-organisation of economic activity along co-operative lines did exist, but were weaker.

## 8 DUTCH FINANCIAL INSTITUTIONS (1930-1965)

### 8.1 Changing geo-political opportunity structure (phase 1)

#### *a) The emergence of a Green Front*

The world crisis that started after the 1929 crash of the New York Stock Exchange, opened the proverbial Pandora box for Dutch imperial and world-state pretensions. Several fledgling dynamics emerged that would put remaining ambitions of an Amsterdam-centred colonial and financial empire to rest; in favour of an identity of a small industrial, export-oriented nation with a low-cost comparative advantage, and a more chartalist conception of monetary exchange.<sup>502</sup> The demise of the Amsterdam prolongation market and the re-emergence of agricultural protectionism in the early 1930s opened a window of opportunity in popular opinion to discuss the issue of national monetary management (Dillen, 1964: 529). This would be the first major debate on monetary policy in the Netherlands since the Patriot Revolution. The debate started in 1933: should the Netherlands retain the gold standard or should the country devalue the guilder – pride of the Dutch imperial nation (Griffiths and Schoorl, 1987). There was virtually no political pressure to devalue (Griffiths, 1987), except from the Catholic Party RKSP (Goudriaan, 1937: 35) and the agricultural lobby (De Boo, 1989; De Vries, 1974: 275). The Dutch government, led by the Protestant Anti-Revolutionary Party and supported by Holland circles of high finance, chose to maintain parity with the gold standard longest of all Western countries, until 1936.<sup>503</sup> Ultimately this stubbornness would cost the Dutch “Regent capitalists”, in particular their Reformed Protestant leader Colijn, dear – dampening Dutch colonial and transatlantic aspirations. The devaluation of the guilder in 1936 was not the result of a well-considered policy but was forced on the government after the collapse of the gold bloc with the devaluation of the French and Swiss francs (Van Zanden, 1997: 150). It would be viewed as a vindication of Catholic protests against the gold standard. The balance of power in the Dutch Christian nation was about to change, with Catholics rapidly emancipating from Protestant prejudices, and the so-called “Green Front” gaining strength. The Green Front was a cross-denominational alliance of agricultural unions involving all denominations – but providing especially Catholic leaders with a valuable testing ground for their aspirations of emancipation.<sup>504</sup>

Organised in a system of hierarchical pillars, many Dutchmen in the provinces came to support the Green Front; if their leaders took issue with the primacy of colonial interests and Regent capitalism, so would they. Contrary to England, the first Western country to have outsourced its agriculture, where Empire was associated with “cheap loaf” and the formation of national character, grassroots support for imperial notions was fragile in the Netherlands. Ultimately, the colonial lobby would prove no match for the Green Front, and its ambitions for a more “chartalist”, industrial Dutch nation. While the British State successfully redirected its world-state efforts to the Commonwealth with its policies of imperial preference and central bank coordination, relations between the Dutch Indies and the Netherlands quickly deteriorated in the first half of the 1930s. By default of geopolitical alternatives, cooperation between the Netherlands and the Netherlands Indies simply had to become more important. Yet, the colonial department in The Hague did not manage to gain much influence in Dutch trade policy. The metropole – Amsterdam – had to help its overseas territories, but in the eyes of many Indonesians and colonial Dutchmen

failed to do so. Domestic interests trumped world-state aspirations, turning what officially was mutual help into a one-sided safeguard for Dutch industry's exports – primarily from the textile industry in Twente. In terms of aspirations of a Commonwealth, Dutch colonial policy had reached a dead end by the late 1930s already (Taselaar, 1998: 623).<sup>505</sup> The old claim by Regent capitalists that, without its colonies and a monetary policy geared towards international financiers, the Netherlands was in danger of being relegated to a position of benign agrarian dwarf (Nobel and Fennema, 2004: 15) was fast losing relevance. The final nail in the colonial lobby's coffin was WWII. The country's occupation by the German army and Japan's invasion of Indonesia stripped Dutch high finance of its riches and consolidated a level-playing field between the Holland city-states and the outer provinces.<sup>506</sup> During WWII, only a minority of die hards believed the loss of colonies would represent a serious break with Dutch Republican history. Finally, by the end of WWII proponents of a rentier world-state could no longer claim the higher ground from champions of a new agricultural-industrial nation.<sup>507</sup>

***b) The loss of the Dutch Indies: a "happy accident"***

In the short term, the loss of the Dutch Indies undoubtedly constituted a significant economic setback. Within a longer term perspective, it actually was a blessing in disguise, pushing quarrelling Dutch elites towards a new clarity of mind. As geopolitical parameters changed drastically after WWII, an ability to start with a clean sheet was a major geopolitical advantage. In spite of their resentment for some US traditions such as "happy mediocrity", many English elites believed in a continuity between the Pax Britannica and Pax Americana. The new Dutch elites, by contrast, harboured no such illusions. This pragmatic stance provided the Dutch with a better point of departure to reinvent their historical success model of "Dutch nonconformism" – associated with the Republic's Golden Age: reinforce local privileges and traditions by pioneering a low-cost and pragmatic geopolitical vantage point; a vantage point conducive to a spill-over of the benefits of dominant international standards, techniques and agreements.

More than ever, the Dutch would endeavour to protect their own traditions from external shocks, by keeping abreast of impending geopolitical changes and joining forces with the new standard-creating social classes in foreign city-states – the competition bureaucrats of Brussels, the monetary authorities in Frankfurt, and the Eurodollar speculators of London.

With world-state aspirations defeated, and Dutch Catholics and social democrats firmly in control, the Dutch government seemed warier than its British counterpart about the nature of US "Empire of Liberty" aims. All the more since the purported aim of Marshall-help in a few years time had changed from overtly economic to overtly defensive, political aims: to fight Soviet communism and halt the march of socialism in Europe.<sup>508</sup> Buttressed by the primacy of provincialism – the supremacy of the Green Front and the system of denominational pillars in post-WWII Netherlands, the government did not wish to pass ethical judgements on the changing democratisation aims of the US government. Rather, governing Catholic and social-democratic elites saw US Marshall aid as a happy accident. Besides helping them get on with the overwhelming job ahead, this aid package served to overcome remaining opposition of the colonial establishment (Eng, 1987: 242).

***c) The emerging EEC***

The newfound clarity of mind about the Netherlands' position in the world would come in very handy in face of the emerging European Economic Community. While the

British engaged in a massive amount of geopolitical wrangling and soul-seeking, the Dutch from the onset were committed to using European collaboration as the main platform to punch above their geopolitical weight. All in all, this timely realisation provided the Dutch with a unique window of opportunity to anticipate further changes of the European context in the 1950s and 1960s. With the French and Italian in turmoil about their position in the world, and the Germans in an entirely disproportional position of weakness, the Netherlands more than any of the other EEC members by the beginning of the 1950s was able to punch above its weight in the laying out of prototypical European traditions. The national “emancipation” of Dutch Catholics from 1939 was extremely timely in this regard. After WWII, Catholics for many decades would be at the centre of government proceedings and nation-building efforts. Obviously, Dutch Catholics were less wary of the establishment of a “Catholic” European Community (cfr. Elazar, 1996: 93) than Protestants and Conservatives.

#### *d) A new low-cost base*

Even before the 1950s and 1960s, Dutch leaders had paid due respect to their reputation of pioneering pragmatism. In the immediate aftermath of WWII, they used the experience of German occupation – and the willing adoption of German corporative practices – to complete the modernisation of the Dutch governance system and economy in an accelerated tempo. Faced with a small home market, and the destruction of its – limited – industrial base and infrastructure, Dutch policymakers decided on a course of rapid industrialisation and export growth. With the grandeur of colonial Regent capitalism out of the way, the Dutch in effect went back to the humble roots of their success in the sixteenth and seventeenth century: a low-cost economic base. Testifying to the birth of a new national consensus, all denominational groups early on agreed “to restrain wages and produce more cheaply than in neighbouring countries” (Visser and Hemerijck, 1997: 92). Yet, while all parties wanted to obtain some “some control over economic development”, most of them did not want to resort to “nationalisation as done by the British Labour Government” (Scholten, 1987: 138). After all, nationalisation was not a policy to the liking of the US government. And no pragmatic Dutchman would needlessly upset the dominant geopolitical player. Instead of nationalising industries and changing existing political institutions, all groups agreed to leave the pre-WWII system unchanged (Blom, 1977: 248) – except for the nationalisation of the Dutch Bank. To accommodate new realities, supplementary public-private vehicles of policy-making were set up; in particular the Labour Foundation (1945) and the Social and Economic Council (1950). Both vehicles were modelled on the collaborative example set by the “Green Front” in the 1930s, as well as the German corporatist legacy – a version of the “Woltersom Organisations”,<sup>509</sup> modified to give better representation powers to labour.

## **8.2 First strategic interactions (phase 2)**

#### *i) Social-democrats*

The threat of “totalitarian” fascism combined with the electoral defeat of 1933<sup>510</sup>, emboldened moderate, non-Marxist voices within the socialist party to put forward a “social-democratic” alternative. These voices called for a new political and economic socialism – a “democratic socialism”.<sup>511</sup> Testifying to the growing influence of Dutch traditions rather than socialist internationalism in the party, the Socialist Party conformed

to the official line of the other Dutch parties in the question “devaluation or gold standard”. Anxious to avoid being accused of debasing the currency, the socialist party stopped short of giving its political support to proponents of devaluation (Griffiths, 1987).

Another sign of growing conformism to Dutch traditions, the idea gained currency that the Party should give up its exclusive focus on the working classes, and become a “people’s party” – inclusive of both the middle classes and the confessional citizenry.<sup>512</sup> A rising number of leading members recognised that a viable socialist state could not do without the spiritual foundations of Christianity and humanism, the main historical pillars of Dutch society. Thus, the new people’s or democratic socialism was to be based on a broadly “religious” or spiritual basis.<sup>513</sup> While this new policy helped to attract reformed and catholic citizens to the party, it was not to be “confessed” officially to avoid more fractious relations and splits within the socialist family.<sup>514</sup>

All the same, the Party from 1937 onwards moved in an openly social-democratic direction – implying an end to the Marxist struggle against Dutch national character and historical traditions. In the 1937 manifesto, the system of parliamentary democracy – from a mere means to total socialist reform – became a social-democrat principle in its own right. All of a sudden, social-democrats 1935 “Labour Plan” – elaborated on instigation of moderates such as Vos and future Nobel Prize winner Tinbergen, became acceptable to the other pillars. Testifying to the new respect for even Orangist traditions of democratisation, the new social-democratic leadership proclaimed that as long as a majority of the people were in favour of the royal family, and this family did not obstruct the democratic process, the party would be well advised to acknowledge the monarchy’s right to exist (Tromp, 2002: 156-159).<sup>515</sup> Clearly, already before WWII, the SDAP had made it clear it was ready and eager to assume responsibility in government (Daalder, 1990: 209) – and it did for the first time in 1939.

During WWII, social-democratic ambitions soared.<sup>516</sup> In response to the German occupation, there had been an upsurge of nationalism among all denominations in Dutch society, resulting in the emergence of a social-democratic People’s Movement.<sup>517</sup> After the war this Movement tried to take advantage of this cross-denominational window of opportunity; it called for a national breakthrough of the old religious, ideological and regional lines. To that end a new Social-Democratic Party – PvdA – was established in 1946-1947. With the creation of this new Labour Party, socialism as the embodiment of a totalitarian ideology was formally rejected. After all, US Marshall aid was conditional on European countries distancing themselves from the perceived evils of totalitarian regimes – whether fascist, nazist or communist. With the old antitheses of anti-nationalism and anti-religion defeated, the only remaining enemies of social-democracy were unbridled capitalism and dictatorship (Bank, 1978: 196; Knegtmans, 1992; Tromp, 2002: 204-208).

Similar to British Labour’s recurring “nationalisation” theme, the post-WWII Social-Democrats’ Party program (1947) had as its core the concept of “socialisation”. Key positions in industry, banking and transport were to be socialised (Bank, 1978: 196-197). In spite of the Labour Party’s participation in government from 1946 to 1958, only a fraction of its socialisation and Keynesian “Labour Plan” program was realised. For instance, the social-democrats’ legislative proposal to use the public corporation as a general-purpose instrument of government policy was effectively ignored (Wansink, 1986). Indeed, the type of public corporation adopted in actual law by the Minister of Economic Affairs Van den Brink differed substantially from the socialist ideal – being Catholic in nature. The nationalisation of the Dutch Bank (1947) and the second banking

law (1952) did not even meet the socialist ideas halfway. Ironically, only in the agricultural sector – where social-democrats were at their weakest – did a public corporation, the “Landbouwschap” take root (Tromp, 1986: 236-237). Then again, it took root precisely because its functioning was based on established traditions of living-together-apart, proportionality and pacification – established in pillarisation movement from the 1920s onwards and in the Green Front from the 1930s onwards.

From 1959 to 1965, the Labour Party did not participate in the coalition governments. During this period, the three christian parties (ARP, CHU en KVP) governed in coalition with the liberal party VVD. This prompted the social-democrats in 1959 to quietly renew their assumption of “historically determinism”; namely that society was gradually moving into a socialist direction. In recognition of their failures in government, they toned down their prior focus on socialisation. And in anticipation of things to come, they lay much more emphasis on State intervention, and the strategic conquest of political power in general (Lier, 1982).

### *ii) Catholics*

The Labour Party’s avowed purpose in the immediate aftermath of WWII was to reorder the multiparty system with its purportedly “conservative bias” into a more simplified national structure along Anglo-American or Scandinavian lines. Yet, not for the first time socialists would be outmanoeuvred by Catholic realism.

Catholics successfully pre-empted Labour’s breakthrough attempts, not in the least by siding with the most “reasonable” socialists as early as the 1930s. Two elements brought Catholics and moderate socialists closer. There was growing opposition against the “elite decadence” of the Colijn government<sup>518</sup> (Zwart, 1996: 30). And Catholics and Socialists demonstrated a growing willingness to foster each other’s emancipation in Dutch national consciousness through compromise: the common goal would be to achieve “corporatism without fascism, and planning without socialism” (Teulings, 1977: 135). Regarding the first part of the equation, corporatist ideals emerged as early as the 1930s amongst catholic politicians and business people. The latter part of the equation was the result of the Labour Plan devised by Vos and Tinbergen in 1935. The latter socialist moderates proposed the establishment of a general economic council. Since execution of this plan was preconditioned on social-democratic participation in government, Catholic support had to be ensured. Thus, corporatist ideas were integrated in the plan from the onset. In spite of the Catholic Party’s leadership’s apprehension for social-democratic membership, it saw the Labour Party as the least unwelcome partner in government, starting with the 1939 coalition. Catholics wanted to avoid at all cost a return of the reformed protestant Colijn to the government. A coalition with social-democrats was all the more feasible since the latter seemed to have given up their aversion for Catholic aspirations of a “corporative organisation of society”, and a business world dominated by “public corporations”.<sup>519</sup> Even though the Catholic purpose with public corporations differed markedly from social-democratic ideals, namely to “substitute a society of professional estates for a class society” fraught with the “unnatural opposition between the two classes of employers and employed”.<sup>520 521</sup>

A second element contributing to the failure of Labour’s radical breakthrough was purely coincidental. The Allied advance was briefly stalled after the WWII liberation of the southern provinces of the Netherlands – where Dutch catholics were concentrated. This provided the Catholic Party and clergy with the opportunity to quickly reorganise in face of the socialist threat. When it became clear that the People Movement still managed to

make some inroads, the Catholic Church stepped in – under pressure from the leaders of lay organisations such as the agricultural co-operatives. As early as 1946, the Catholic Church reaffirmed its opposition – first stated in a 1918<sup>522</sup> - to Catholics’ membership in non-Catholic political, trade union, and even cultural organisations. While membership in the Labour Party was considered reprehensible, membership in the socialist trade union NVV was regarded as a far worse violation of episcopal interdiction (Windmuller, 1969: 121-126); for the latter was still based on a Marxist platform.<sup>523</sup> All in all, the Catholic Church’s intervention – first backed up by the less reform-oriented Reformed Protestant Labour Union – cut short hopes of a more unified national society; and the new social-democratic élan that was born in the years of occupation soon disappeared (Wilterdink, 1991: 25).<sup>524</sup>

A final element explains the failure of the breakthrough movement; the years from 1939 to 1966 arguably were more the heydays of Catholic than Social-Democratic political emancipation.<sup>525</sup> Within the confessional coalition of the interbellum, the Catholic Party RKSP had never been able to occupy the prominent position that it could have claimed on the basis of the sheer size of its membership (36.42 % of the population in 1930). Although three cabinets in the period 1918-1939 were led by a catholic – Ruys de Beerenbrouck, economic inferiority and cultural prejudices pre-empted the translation of size to political power (Bosscher, 1980: 32-33).<sup>526</sup> The 1939 cabinet crisis finally set in the “definitive catholic emancipation” from Reformed Protestants (Schoffer, 1968; Bosscher, 1980: 33). Growing opposition to the Reformed Protestant minister-president Colijn within the Catholic party and pillar precipitated the crisis. In contrast with the Reformed parties – the ARP and the CHU, the Catholic Party RKSP had to come to grips with growing left-leaning opposition within its own rank and file.<sup>527</sup> As the Catholic Party shifted towards a more “social” course, it developed new principles such as “personalism” to pre-empt a socialist “breakthrough”. Distinct from liberal individualism, personalism implies a certain solidary conception of the individual’s responsibility to and for the society around him. Distinct from collectivism, personalism is linked with a form of pluralism that allows for the voluntary grouping of different “spiritual” families in for instance a corporative structure. With regards to labour, the doctrine of personalism holds that it is not a commodity, but a moral achievement by an “individual with reason, responsibility, and potentially infinite value” (Fogarty, 1957: 28-29). Personalism and corporatism in essence were very effective reinventions of the Dutch traditions of living-together-apart and pacification. As such, they provided an elegant solution to an age-old Dutch problem: how to allow mutually interdependent, but antagonistic cultural and political groups to maintain their autonomy to a perceived optimum, within the framework of a national sovereignty.

Through the principle of personalism, Catholics ensured that allegiances to one’s religion, family or village would remain at least as authoritative as centralizing or territorial State or Church tendencies. Its introduction was especially timely in view of the imminent construction of new European allegiances. The other Catholic concept of “corporate subsidiarity”<sup>528</sup> would prove equally useful; it allowed for a reinvention of the Orangist pacification principle, i.e. the principle that rivalling factions should depoliticise and resolve civic differences – religious or otherwise – in elitist decision-making bodies. As a complement to personalism, corporate subsidiarity allowed for the gradual building of a Dutch national consciousness. It also served as a stepping stone to the enshrining of the subsidiarity<sup>529</sup> tradition in the trappings of the emerging European Community.

### *iii) Reformed protestants*

During the period 1939 to 1952, Reformed Protestant parties, especially the ARP, suffered from the so-called “heritage of Colijn”: a “mentality, worldview and specific social-economic, colonial and geopolitical notions” that hampered the renewal of Reformed Protestant thought in the national consciousness that was emerging after WWII. Colijn’s defense of an inflation-proof guilder until 1936 caused the ire of the working and lower middle classes, and boosted support for leftist Catholics and Social-democrats who accused Colijn of privileging Regent capitalists – involved in colonial affairs – above the interest of the common people<sup>530</sup> (cfrr. Bosscher, 1980: 12, 127). Catholics and Social-Democrats convincingly argued that the Reformed protestant constituted no more than a throwback to not just the pre-WWII period, but even the pre-WWI period dominated by the scriptural Reformed Protestant Kuypers.

After the breakdown of their rather patronising relation with the Catholic Party, Reformed Protestant forged a new alliance with the Liberal Party – that is those Liberals who had not left for the Social-Democratic Party. Yet, given their exclusion from government, opposition was growing within Reformed Protestant circles. The farmer boy turned professor in economics, Jelle Zijlstra, was considered a rather unorthodox Reformed Protestant. Without relinquishing his Christian traditions, Zijlstra opted for a very pragmatic, Kenesyan approach to politics, earning him the position of Minister of Economic Affairs in the third Drees government. Drees being a social-democratic, old-fashioned members of the Anti-Revolutionary Party were rather unhappy. Anti-Revolutionaries such as Mekkes opined that the Social-Democrats were undermining the State of Law by promoting the sectarian interests of one group – the propertyless. This amounted to the subordination the Christian “idea of justice” to the politics of economic interest groups (Zwart, 1996: 123, 132).

Zijlstra’s predilection for economic planning meant he was very close to the stance of social-democratic economists. Yet, he remained in the Party to “reform it from within” (Zwart, 1996: 128). Against all opposition, Zijlstra eventually would catapulted in the driver’s seat of his own party, largely be virtue of his many practical successes as Minister of Economic Affairs; that is, while keeping him in important government positions – most notably the position of Minister of Finance from 1959 to 1963. All in all, however, the Reformed Protestants were unable to stamp their mark on the 1950s or 1960s; they did manage to come up with inventive concepts of democratisation such as Catholics’ corporatism and personalism.

### *iv) Liberals*

After WWII, most Liberal-Democrats joined the new social-democratic Labour Party. The descendants of Regent Capitalism and laissez-faire liberalism, changed the name of their allegiance from Free Liberals to the Freedom Party.<sup>531</sup> Given that it reminded the electorate of not only the failed monetary policies of the 1930s, but also pauperism, unemployment and capitalistic greed, the Party’s new leadership eschewed all references to the term “liberal altogether; emphasising “christian” and “economic freedom” instead (Maas, 1991: 90). In addition, the party took a more positive approach to social legislation issued by the State. The Party to its own detriment would not give up one historical legacy: it continued to support the colonial lobby against national independence movements. The Freedom Party’s lack of electoral success soon ushered in the foundation of a new party: the People’s Party for Freedom and Democracy (1948).<sup>532</sup> In spite of the name change, this Party at its core promoted the same issues: the primacy of social justice,

spiritual freedom, self-reliance and the necessity to counter “socialist state-absolutism” (List, 1995: 57-65). And it advocated against State corporatism as its predecessors; although the Party’s reaction to the Catholic variants of corporatism and personalism was altogether more mellow – given that the latter variants were grounded in a similar Christian heritage.<sup>533</sup>

#### v) *Dutch Bank*

As the Bank of England, the Dutch Bank’s role over time changed from finance company for business to finance company for private banks. Yet, compared to the Bank of England the Dutch Bank merely was a fledgling lender of last resort, and vehicle of monetary management.<sup>534</sup> Prompted by the impending world financial crisis, the Dutch government established a state commission to investigate the advisability of a more structured supervision on private banks. While its work was cut short by World War II, the Dutch parliament after the war quickly adopted a first general-purpose Bank Act (1948), followed by a more detailed Act in 1952. The Dutch Bank was nationalised and given responsibility for both macro-economic stability and stability of the financial system.<sup>535</sup> The 1952 Act followed the lead of the US’ Glass Steagal Act (1933), aimed at preventing financial conglomerates coming into existence that would be too powerful. In terms of preventing the concentration of power, the 1952 Act stipulated the separation between banks and business, prohibiting French-style *banques d’affaires* as well as collaboration between banks and insurance companies by means of share participations. It also granted the Dutch Bank the formal powers to approve bank mergers.

The legal powers of the Dutch Bank had not been created from scratch as with the US Federal Reserve in 1913. Already before 1948, the Dutch Bank had given proof of its growing authority as a vehicle of banking coordination. In 1946, the Bank concluded a “gentleman’s agreement” with 42 commercial banks and the two central co-operative banks on a tighter management of monetary flows – all banks agreed to send figures every month to the Bank. Buoyed by the two Bank Acts, the Dutch Bank’s authority grew rapidly, both as a lender of last resort and as a supervisor. This authority had a very Dutch trait; it was based on the principle that the Dutch representative organisations had to be consulted before any general instruction could be given. The Minister of Finance designated the Dutch Bankers Association<sup>536</sup> as the representative organisation for commercial banks; the two Central Co-operative banks negotiated directly with the Dutch Bank.

Ultimately, the means of credit control were very similar in Britain and in the Netherlands – apart from the requirements calculated to ensure the solvency and liquidity of banking institutions (which have always been set out more formally on the Continent than in Britain). As the Bank of England, the Dutch Bank’s emphasis was on regulating the liquidity of the economy by influencing directly (through cash reserve requirements and other means) and indirectly (through the several types of open market operation) the liquidity of the various groups of banks. Both the Bank of England and Dutch Bank complemented this emphasis with attempts to maintain a consistent interest rate structure – by periodically changing the level of Bank Rate and by varying the rates at which the Treasury or Ministry of Finance were willing to offer securities to the market. Ultimately, the efficiency of these controls depended on the prestige and integrity of the central bank. While the Bank of England’s moral authority was unquestionable, the Dutch Bank’s authority was considerable (Wilson, 1962: 232-233), but more contestable from a private banking viewpoint – given the primacy of prior consultation with banks. In effect, the

Dutch Bank's authority became comparable to the Bank of England's only after the 1956-'7 episode of balance-of-payments deficits and inflationary bank note circulation, which drained banks' liquid assets (Barendregt and Visser, 1997: 188).<sup>537</sup>

In terms of credit controls there was one major difference between the Dutch Bank's and the Bank of England's post-WWII reconstruction approach; one that would have important consequences for the further development of democratic settlements. In contradistinction with the UK government and Bank of England, the Dutch government and Bank from the onset put on a par all credit-creating institutions - including the 'fringe' institutions - after WWII. Clearly, the Dutch harboured few illusions about the remaining world-state potential of the City of Amsterdam. The English, by contrast, tenaciously hung on to their world-state prerogatives, putting the Bank of England on an almost self-defeating supervision path in relation to London-based foreign and secondary banks.

#### *vi) Interest group politics*

Contrary to English interest group politics, which demonstrated enduring signs of pathological dysfunctionality (Grant and Sargent, 1987; Grant, 2007), the soundness of Dutch interest group politics received a boost from the 1930s onwards. As mentioned before, during the 1930s the Green Front had set the prototype for national interest group politics. During WWII, German occupation increased the readiness of all parties to bury their differences above a minimal threshold. Ironically, Dutch industrial, labour and political leaders learnt a lot from the German themselves as to the practicalities of this new collaborative platform. German corporatist practices were eagerly adopted as the basis of a new democratic settlement; a new system of "democratic corporatism" was created in which the factors capital and labour would stand on an equal footing. Employers struck a deal with the trade unions: if they would be able to discipline their membership on a national rather than local basis, and renounce the strike weapon, the trade union representatives would be granted a seat in all central organs of social-economic decision-making. And while employers would remain the "lords of their own home" - precluding undue State interventionism, management would have to share authority with a new enterprise council representing the interests of all employees (Teulings, 1977: 136-137).

Arguably, the Dutch civil service's evolution parallel to the movement of pillarisation was more conducive to sound interest group politics than what one observed in England. The Dutch civil service has never been dominated by one department such as the British Treasury. Rather, a healthy interplay between the Ministry of Finance and Economic Affairs developed after WWII. And while the British civil service kept fishing its members from the same public school waters - putting into peril its ability to remain a credible champion of the tradition of neutrality, the Dutch civil service's composition evolved in line with the emancipation of new groups - allowing it to successfully reinvent the tradition of proportionality. Reflecting the legacy of the Dutch Republic, civil servants in the Netherlands have always predominantly come from the larger cities and towns, with especially the Holland cities Amsterdam and Rotterdam being disproportionately represented before WWII. Gradually, however, with the emancipation of Catholics and social-democrats, the composition of the civil service became more proportional, in terms of religious, geographical and social class origins (see tables 8.1a and 8.1b).

For instance, compared to their share in the working population in 1947 (37%), the roman-catholics were underrepresented in the nation-wide civil service (30%), especially in the higher echelons in the Hague. The members of the Dutch Reformed church, on the other hand, were slightly better represented (32% of working population versus 37% of the civil

service). Still, compared with the situation in 1871, the situation of the Roman-Catholics in the Hague had significantly improved – from 6.5 to 12 percent of the highest civil service echelons, from 7.5 to 18 percent for the middle echelons and from 9 to 23% for the lowest echelons (Braam, 1957: 247-248).

**Table 8.1a: Size of the civil corps as percentage of the working population per province (1947)**

(Source: Braam, 1957: 79)

Province	Percentage
Zuid-Holland	5.7
Noord-Holland	4.0
Zeeland	4.0
Limburg	3.6
Utrecht	3.4
Gelderland	3.1
Groningen	2.9
Overijssel	2.7
Friesland	2.6
Drenthe	2.6
Noord-Brabant	2.6

**Table 8.1b: Categorisation of civil servants in terms of social class**

(Source: Braam, 1957: 215)

Origin	All civil servants	Lower civil servants	Middle civil servants	Higher civil servants
Manual workers	22	26	16	6
Small bourgeoisie	65	62	70	63
Farmers	5	5	4	5
Upper classes	8	7	9	27

**vii) New vehicles of national policy-making**

What also contributed to a sounder system of interest group politics was the establishment of new vehicles of national policy-making after WWII. As early as May 1945, employers and employees established the Labour Foundation as a consultative forum for the two groups. The Labour Foundation functioned as an advisory body to the government on industrial and social issues. In particular, it negotiated wage guidelines with employers and employee organisations - in partnership with the government.<sup>538</sup> An sich, the Labour Foundation was not a solution to the moot point of what degree of state intervention would be acceptable to all parties. While the social-democrats were in favour of a planned economy, the anti-revolutionaries favoured a small State. The catholics, for their part, took a position somewhere in the middle.<sup>539</sup> After five years of heated debate, a

corporatist compromise was finally reached; in the form of the Social and Economic Council (SER - 1950). At the top of the corporatist food chain, the SER was constituted as a tripartite council, comprising representatives of the “recognised” trade union and employer organisations, as well as expert economists appointed by the government. The SER turned out to be a hugely successful mediator of democratic settlements, for two reasons. First, policy-making via the SER extended to most sectors of economic life, including fiscal policy, wage agreements, price and profits control. Second, the recommendations of the SER bypassed parliament, to go directly to the cabinet. The cabinet mostly followed these recommendations. All the above elements provided the building blocks for the emergence of a system of “consociational democracy” in post-WWII Netherlands (Lijphart, 1968) - a system that did not allow any economic, civic or political group to dominate matters, but rather gave everyone a proportional say.

#### *viii) The Green Front*

From the 1930s onwards, farmer unions had more success in applying for public assistance than any other Dutch interest group, and this in spite of the declining percentage of the working population involved in agriculture. Where agriculture before the 1930s had been treated in a rather stepmotherly fashion, from 1930 it was allocated sizeable public assistance, amounting to about 20 % of total government spending between 1934 and 1937 (Van Zanden and Griffiths, 1989: 64). As the single most organised pressure group in the Netherlands, the “Green Front” was peaking at exactly the right moment; the popularity of expanding government budgets and a more elaborate civil service corps increased vastly in the 1930s. The Dutch government intervened with several new compensation and subsidy measures, including a guarantee of maintaining prices higher than the world market equilibrium.<sup>540</sup> Testifying to the “proto-modern” character of these measures, most of them would be implemented in the first agricultural directives of the European Community.

The Green Front was keen to maintain a healthy balance between public intervention and private initiatives. So, when in 1934 government decided to reform the crisis organisations into centrally guided state organisations, the farmer organisations joined to decry this form of elusive state socialism. On the other hand, in 1935, the government complied with the request of the farmer associations to form a ministry of Agriculture (and Fishery), which was headed by Deckers, the ex-secretary of the Catholic farmer union (KNBTB). Deckers immediately ordered the institution of a committee to analyse the restructuring of agricultural crisis policy. The committee concluded that the state-guided crisis-organisations were not efficient and advised the minister to substitute self-regulation and self-administration by the farmer associations for State influence on agricultural policy. The Catholic minister was quick to approve of these corporatist proposals. Yet, the advent of WWII prevented the effective implementation of the planned reforms. As such, farmer unions’ wish to be able to deal with a competent ministry of agriculture led by people “that understand and love farmers’ lifestyle” could only be realised after WWII.

After WWII, guaranteeing stable production prices remained the core of Dutch agricultural policy – and later EEC agricultural policy. Also, the Green Front’s pre-WWII proposals – laid out in the 1939 Commission Van Rhijn but stopped short by WWII – were revived. This Commission argued that agriculture, because of its economically vulnerable position and its importance for the Dutch people, deserved special attention from government. And because the agricultural community was already organised on a very sophisticated basis, it should be allowed to self-regulate rather than depend on supervision

by a State agency. Subsidiarity should be at the core of agricultural policy (Smits, 1996: 115). Practically speaking, agricultural representatives would establish a public corporation on their terms; membership of this corporation would be compulsory for farmers. The government was quick to consent. As early as 1945 the Commission's proposals were realised: the "Agricultural Board" was established, a private body invested with public authority in which farmer unions had a decisive say. It was regarded as the authoritative voice of organised agriculture<sup>541</sup>, a voice moderate in tone, whether it concerned the national or regional levels, matters of production, distribution, or rationalisation, or even conditions of employment.<sup>542</sup> The Board's powers were extensive; including the authority to levy taxes directly from its members.

### **8.3 Firms' strategic positions in new settlements (phase 3)**

#### **8.3.1 Renewal democratic settlements**

##### *a) Role of happy accidents*

Several unintentional developments – "happy accidents" – contributed to the success of Dutch democratic settlements after WWII. The ravages of WWII had created a new level-playing field between finance and industry, the Holland city-states and the outer provinces – among others by drastically reducing regional income inequality (Sommermeijer, 1965).<sup>543</sup> The loss of the Dutch Indies provided a new geopolitical clarity of mind amongst all quarrelling groups, away from rentier capitalism to a rediscovery of the roots of the Dutch historical success model of Dutch nonconformism. And the discovery of natural gas in the 1960s would allow for more generous tripartite compromises and the gradual emancipation of the Dutch people. Less unintentionally, the continued success of democratic settlements also had to do with the great interpretative flexibility of the "consociational" settlement on which all parties had concurred. Leaders of all denominations and affiliations were able to interpret the existing system in their favour. So, social-democratic leaders explained consociational processes as the best available means of institutionalising a voice for workers in State policy. Liberal leaders, on the other hand, though being out of office from 1948 to 1951, viewed the system as a mode of accommodation without direct state intervention, which left enough tactical scope for employers. Confessional leaders, finally, deemed a measure of corporatism convenient in their quest to reconcile divergent interests within their own pillars. The appeal of the "consociational" model amongst the great majority was confirmed by consecutive election results. The elections of 1948, 1952 and 1956 resulted in government coalitions commanding the support of 73 to 87 percent of the Lower House. The success of new national policy vehicles, the Labour Foundation and the Social-Economic Council in particular, also reflected the effectiveness of the consociational system. While the Labour Foundation provided generally accepted advice, the Social-Economic Council almost without opposition maintained wage terms. For instance in 1951 the Council mediated an agreement under which labour, business, and government jointly agreed that nominal wages should be pushed down by 5 per cent. Remarkably, the Social-Economic Council managed to maintain wage moderation from 1945 up to the early 1960s – a period of strong macro-economic growth and close to zero unemployment.

*b) Success of low-cost consociationalism*

All in all, the consociational system of living-together-apart, pacification and proportionality – the reduction of any political contestation to a problem of proportional distribution (cfr. Lijphart, 1968: 116-130; Van Mierlo, 1986: 98), was successful. Government expenditure greatly increased in post-WWII Netherlands, more so than in the UK (see Appendix F). But because labour productivity and GDP per capita increased more than in competitors such as the UK (see Appendixes G and U), government expenditures were perceived as fully justified and the Dutch State was strengthened in the process. The geopolitical performance of the Netherlands compared positively in other terms too. The construction of a social security system and greater access to advanced and vocational education resulted in a constantly declining income inequality pattern from 1945 to 1980 (Hendrix, 1998). Up to the late 1960s, however, comparative income inequality figures remained somewhat ambiguous: while regional income inequality decreased much more than in the UK, national income inequality decreased less (see Appendix E). In terms of social mobility, the consociational system of hierarchical pillars and elite control has often been blamed for low levels of social mobility (f.i. Ganzeboom and Luijkx, 2005). This is certainly true when social mobility is considered within each pillar. Yet, equally important, the upside of the consociational system was that it provided a national emancipation platform for previously marginalised groups, in particular Catholics, and more recently social-democrats. Indeed, as national blocks Catholics and social-democrats made substantial progress in terms of social mobility. In terms of the tradition of Orangist democracy – the principle that issues of social mobility and integration should be resolved according to the established rules of one’s own particular group, the Catholics by far were best positioned in the Netherlands (see tables 8.2a and 8.2b). But if Catholics were to pacify sources class strife in the entire nation, they needed the help of social-democrats who had the largest labour union following (see Appendix V).

**Table 8.2a: Relation electoral and religious affiliation in the post-WWII period**

(Source: Fogarty, 1957: 359; based on a Report by PVDA’s research centre)

	<b>Catholics</b>	<b>Reformed Strict Observance</b>	<b>National Church Reformed</b>	<b>No religion</b>	<b><u>Total</u></b>
<i>Out of every 1,000 voters there are</i>	355	95	370	180	1,000
<i>These voted:</i>					
<b>Catholic</b> (KVP or KNP)	325				325
<b>Protestant</b> (ARP, CHU or SGP)	0	90	155		245
<b>Liberal</b> (VVD)	5		45	30	80
<b>Miscellaneous</b>	0		5	10	15
<b>Labour</b> (PVDA)	20	5	150	80	255
<b>Communist</b> (CPN)	5	0	15	60	80

With the benefit of hindsight, the consociational system was all the more successful, since it produced several useful by-products. It induced all parties to renew traditions of democratisation in their own terms, within the competitive framework of an increasingly centralised umbrella of national sovereignty. In many ways, the different denominations competed with each other in terms of the same systemic assumptions, derived from two landmark consociational agreements: the 1917 Pacification agreement and the 1920 Primary Education Act. These two building agreements served to both formulate anti-competitive veto points, and share competitive goals. Regarding the issue of veto points, all Labour unions after WWII rejected strikes as a bargaining means. In terms of shared goals, after WWII all denominations tried to deliver the best educational institutions – somewhat unintentionally raising national labour productivity in the process. Geopolitically speaking, the system brought into being a society that looked fragmented and hierarchical, but was more conducive to dynamic settlements about the main post-WWII question: how to reconcile domestic protection mechanisms with international competitiveness? That is, how to provide the social security system and educational access all West European populations demanded, yet produce a low-cost economy?

**Table 8.2b: Mobilisation of social classes in terms of religious affiliation after WWII**  
*(Source: Fogarty, 1957: 369; based on a report by PVDA's research centre)*

	<b>Communist</b>	<b>Labour</b>	<b>Liberals</b>	<b>Catholic</b>	<b>Protestant</b>	<u>Total</u>
<b>Manual Workers</b>	45	135	5	135	90	410
<b>Clerical / managerial workers</b>	5	75	15	70	40	205
<b>Independents (Shopkeepers / professions)</b>	5	30	40	50	50	175
<b>Farmers</b>	0	5	15	40	25	85
<b>Pensioners</b>	15	15	5	25	0	85
<b>Other</b>	0	0	0	0	0	40
<u>Total</u>	70	260	80	320	230	1,000

The most remarkable result of the highly fragmented consociational system is that it brought into being a greater national consciousness than the famed consensus society of post-WWII England *and* more of a level-playing field between established and outsider groups. And while the consociational system was highly hierarchical, it vastly increased the social mobility of catholic and social-democratic minorities in “Protestant” Netherlands. That is, while producing less of a class-ridden society than England. And without hampering economic growth. In sum, the greatest paradox of the consociational system is that, while it was premised on citizens identifying primarily with their own pillar and only secondarily with national parliamentary politics, it produced the informal building blocks to make the latter work. It would take a breakdown of the formal

consociational system and a failed “breakthrough” experiment in the 1970s for this emerging reality to dawn on the majority, however.

**c) *Housing policy and housing associations***

Housing policy provided one of the other foundations of the emergence of a national consciousness and a stronger State after WWII. In contrast with England, the main focus of Dutch housing policy throughout the second half of the twentieth century was the social rental sector. This was quite surprising. During the 1920s and 1930s, the view that had come to dominate in the Netherlands was that the social rental sector should play a residual and marginal role in the housing market – which should be dominated by private ownership and a for-profit rental sector.<sup>544</sup> This did not bode well for housing associations – specialists of the social rental sector. But it was not necessarily good news for Dutch mortgage banks either, as no tax advantages were introduced to mobilise people for their services. As mentioned in chapter 5, given the country’s historical dependence on the international capital market, the Dutch Bank and the Ministry of Finance were and remained opposed to the establishment of a separate domestic capital regime for home-ownership (Helderman, 2007). They chose not to disturb the status-quo that institutional investors and private landlords preferred.

Nevertheless, after WWII Dutch housing in the space of a few years was transformed from a decentralised to a centralised policy regime of national importance. After WWII, the growth in the Dutch housing market for a remarkable 60% was on account of the non-profit rented sector, i.e. the housing associations. Two factors laid the basis of this – compared to England – distinctive trend. The highly regulated character of the housing market was an important factor: 82 % of post-WWII house production in the Netherlands was realised by means of government subsidies.<sup>545</sup> And co-operative housing associations were largely organised according to consociational lines of demarcation – confessional and social-democratic (Lundquist, 1992: 59). This fit earned them consistent political support from confessional and social-democratic elites. Nevertheless, different from other sectors such as agriculture where authority was delegated to statutory company bodies<sup>546</sup>, the government decided to monopolise responsibility for housing policy. The government was reluctant to give private actors, such as institutional investors, private landlords, the building industry, mortgage banks and the housing associations, a full public licence to implement housing policy. The careful implementation of the tradition of proportionality in housing policy – the Dutch version of English “tenure neutrality”, was simply too important to leave to the vagaries of private actors, especially after the traumatic housing crisis of the 1930s.<sup>547</sup>

**d) *Resounding success of agricultural modes of public-private collaboration***

The home-ownership sector was not at the forefront of innovative interest group politics in the post-WWII Netherlands; housing associations which focused on the social rental sector ultimately would become the champions of a new Dutch mode of public-private collaboration. But that was as late as the mid-1960s. The consociational heydays (1930-1965) were marked by the success of another sector altogether: the agricultural sector.

Leaders of agricultural interest groups were exceptionally successful during this period – as demonstrated by the disproportionate share of government subsidies going to agricultural education and production facilities from the 1930s to the 1960s (Van Zanden, 1997). Before WWII, only the confessional parties had been in favour of granting the agricultural sector – the Green Front – the privilege of a separate government department

and civil service corps. The sector was adamant on this point: it wished to break away from the prejudices of the old Regent class in charge of the department of Economic and Home Affairs, and deal with a separate, more specialised department.<sup>548</sup> The mere partial support for the Green Front's demands before WWII was not surprising: many top functionaries of the Catholic Party and – to a lesser extent – Reformed Protestant Party hailed from agricultural regions in the outer provinces, while government and civil service personnel predominantly came from the major Holland cities.

With the demise of old Regent priorities of empire and high finance, and the emancipation of Catholics and social-democrats from 1939 onwards, cross-denominational support for the agricultural sector soared. All of a sudden, the agricultural cause seemed to have ardent supporters in all political parties (cfr. Robinson, 1961), including the social-democratic party PvdA and the liberal People's Party for Freedom and Democracy.<sup>549</sup> That is, although the bulk of the agricultural population continued to vote for the catholic and protestant parties. All opposition to a separate Ministry of Agriculture and Fishery foundered; as early as 1945 the Ministry was established. Similarly, resistance against the "pillarisation" of government departments and the civil service all but vanished (Van Hezewijk, 1988). The common agricultural policy around which all parties rallied was to construct an economically responsible sector, able to compete internationally through its specialised nature. To shelter the sector from the vicissitudes of seasonal changes and crisis-prone world markets, the government agreed to expand social security provisions and deepen the quality of and the access to vocational education (Smits, 1996: 181).

Testifying to the exceptional strength of the agricultural lobby, agricultural matters were not managed through the Labour Foundation or the Social-Economic Council – as most other economic and social matters were, but through the Agricultural Board.<sup>550</sup> The Dutch government and the Agricultural Board maintained very close relations; the nature of their relationship has often been characterised as a "partnership". The Agricultural Board was also very influential in the Dutch Parliament's Second Chamber – the equivalent of the British House of Commons. This influence was a consequence of a combination of factors: the prestige and expertise of the public corporation, the almost single voice with which the agricultural members of the Second Chamber appeared to speak, and the confessional parties' strong dependence on the agricultural vote (Robinson, 1961: 61-64).<sup>551</sup> Although it possessed great influence there, the Agricultural Board, with the approval of the Minister of Agriculture Mansholt, often simply obviated the parliamentary system to act on its own terms. Grievances about this rather extraordinary arrangement were virtually non-existent, at least in the public realm. For instance, by the beginning of 1962, out of a total of 802 competition disputes settled by the Ministry of Economic Affairs, only 6 were related to the agricultural sector, compared to 14 to the banking sector, 32 to the textiles sector and 72 to the chemical industry (Mulder and Kok, 1962).

But this was only a symptom of a deeper underlying cause. The principal reason for the overwhelming consent as to this extra-ordinary arrangement was the sheer economic and cultural dynamism of the agricultural sector. Indeed, of all Dutch economic sectors, the agricultural sector probably was the one that most fundamentally changed – for the better - in the after war period. The sector had accumulated several structural problems during the first part of the twentieth century: modest increases of the demand for agricultural produce, a low labour productivity, and an industry structure with a lot of small businesses. While the agro-industrial sector was considered a declining industry

before WWII, from 1950 it quickly transformed in a growth industry, experiencing the greatest increase in labour productivity, and the most rapid investment and production growth of all Dutch economic sectors (Van Zanden and Griffiths, 1989: 222). For a start, the agricultural industry enjoyed an enormous growth in capital input. Marshall aid and later the credit facilities provided by the Co-operative banks boosted investments in more efficient machinery to geopolitically competitive levels.<sup>552</sup>

The agricultural sector's clout reached far beyond the national level. Evidently, the announcement that Mansholt would become the first European Commissioner for Agriculture in 1957<sup>553</sup> was greeted with great enthusiasm. Mansholt immediately resolved to transplant the Dutch agricultural model – based on traditions of proportionality and pacification – to the policies adopted by the European Food and Agricultural Department. All this gave the farmer unions and co-operative banks – especially the Catholic ones – unprecedented access to centres of decision-making, both at the Dutch and European level. More generally speaking, the agricultural sector was at the vanguard of efforts to reinvent the Dutch nation's historical success model: combine greater protection of one's provincial traditions with a more pragmatic openness to dominant geopolitical traditions and standards than geopolitical rivals. In modern terms, the Dutch success model entailed marrying more elaborate local protection mechanisms – such as Dutch productivity support schemes and EC price subsidies – to a low-cost, pragmatic approach to international competitiveness – a “liberalism by default” to provide uninterrupted access of Dutch entrepreneurs to the world market.<sup>554</sup> Compared to for instance France, the Netherlands' comparative advantage was that a large group of its farmers had consistently been in favour of such a “liberalism by default” policy (cfr. VVD, 1952: 3) – not surprisingly, given their country's historical legacy as an agricultural export nation. Since the time of the Republic, Dutch trade policy has been based on the “unassailable” assumption that the majority of the Dutch public benefits from an uninterrupted access of its entrepreneurs to the world market (De Boo, 1989: 15).<sup>555</sup>

*e) Emergence of a contiguous West German success model*

The emergence of the EEC would provide the Dutch with a unique opportunity to enshrine their age-old combination of “liberalism by default” and protection of provincial traditions in a geopolitically more relevant guise. Besides the visible benefit of opening Franco-German markets<sup>556</sup>, the Dutch were served hand and foot by the emergence of a very contiguous West-German model. Albeit for entirely different reasons, the Dutch as the Germans lacked a national identity around which all parties could rally after WWII. As the West-Germans, Dutch elites for strategic reasons opted to rally around a notion of a threatened “European” rather than “national” heritage (Kroes, 1991: 6). Especially for Dutch Catholics and German Ordoliberals the threat in this regard was not only Communism, but also the corrupting influence of US consumerist, middle class traditions. Similarities between Dutch and German opportunity and threat structures did not end here. As the Dutch, West-German leaders after WWII grappled with a more fundamental issue: how to reconcile a “profound distrust” of plural democracy and the vagaries of mass popular opinion, with the need to rally everyone around an effective economic reconstruction policy? (cfr. Manow, 1999; Nörr 1994:174). The West-German solution to this problem crystallised around 1948, and has often been labelled “Ordoliberalism”. The dominant ideological interpretation of Ordoliberalism was one of a free trade policy couched into a – for German traditions – ground-breaking liberal philosophy of non-interventionism. The more nuanced interpretation advanced in the “varieties of capitalism”

literature is that post-WWII West Germany developed a system of corporatist economic coordination within a liberal market environment – i.e. a blend of old and new that can be labeled a “social market economy”.

Both labels and classifications very much are myths. Liberal and socialist measures alike were adopted to keep appearances and facilitate consensus; it was “liberalism and socialism by default”. The real nature of the Federal Republic’s post-WWII settlement reflected a modernisation of age-old traditions. For instance, while German Ordoliberals in the end did accept the necessity to adhere to a measure of non-interventionism in the name of US-style liberal democracy, they did this to safeguard as much as possible of the non-liberal authority structures inherent in age-old German traditions. Ordoliberals held the system of liberal democracy responsible for the economic decline and social turmoil of the late Weimar Republic. Demonstrating a pro-state orientation, but with a strong anti-parliamentary bent (Vorländer 1997: 6), they favoured neither a free market economy – symbol of disorder – nor a corporatist welfare state – an inflationary byproduct of mass democracy.<sup>557</sup> Yet, with the preferred authority structures so tarnished by labels of state interventionism and “Führertum” (Rüstow 1932:70), and the US Empire of Liberty so much in the ascendancy, Ordoliberals realised they had to trade domestic political rights for internationally recognised property rights. The compromise settlement that emerged from negotiations with North-American occupiers and social-democrats was the trading of a politically incontestable framework of “economic self-governance” for a generous corporatist welfare state. Employers moulded the former part of the compromise into the West-German myth of “an export-oriented Republic”; as well as the myth that the Bundesbank’s independence should be unassailable. As a result, it became commonly accepted in the post-WWII Federal Republic that a strong Deutsche Mark and a low inflation climate guaranteed by the Bundesbank were necessary to make the West-German variety of democratic capitalism work. The latter part of the compromise – a corporatist welfare system, on the other hand, was framed as continuous with the successful Bismarckian welfare state rather than the failed National-Socialist State.

Together, the two parts of the compromise colluded into an even greater myth: the European social market economy, a supposedly “fundamental post-war political innovation” (Lehmbruch 1992: 33). Within a European Economic Community context, not only Dutch social democrats, but also Dutch liberals eagerly adopted this myth; the former feeling vindicated, the latter conscious of the fact that “liberal” had become a dirty word in post-WWII Netherlands. North Americans appreciated the myth too, as it steered clear of communism, and echoed of their own “politics of productivity” settlement<sup>558</sup> – the US variety on the British model of “liberalism by default”.

With its many veto points, the West-German state was only a semi-sovereign state (Katzenstein 1987; cfr. Schmidt 1989); important decisions were effectively sheltered from ‘undue political interference’, and room for general political discretion was substantially restricted. All this sounded very pleasant in Dutch Catholic and agricultural elites’ ears; especially since the European identity was variably seen as “Catholic”<sup>559</sup>, keen on subsidiarity – easily interpretable as “living together apart”- and proportionality – guaranteeing a place for both small and medium nations, small and medium enterprises, and “against State interventionism and dirigisme in international economic relations” (Elazar, 1996: 93; Elazar, 1998; Kreile, 1977: 808; Schackleton, 1991). Arguably, the legitimacy and weight of the West-German model helped the Dutch translate their own consociational system into mainstream European policy. After all, Dutch

consociationalism and West-German Ordoliberalism shared several system features: a model of decentralised and functional interventionism, incorporating many veto points for parliament and allowing for targeted intervention in specified domains by specialised, extra-parliamentary agencies – such as the Bundesbank and the Federal Cartel Office<sup>560</sup> in Germany, the Social Economic Council, Central Planning Bureau<sup>561</sup> and Agricultural Board in the Netherlands (cfr. Manow, 1999).<sup>562</sup> The central role of veto points and specialised, extra-parliamentary agencies has often been neglected in explaining the success of not just the West-German, but also European model. Another system may have rendered the idea of an amicable, peaceful European Union a far-fetched dream in a continent so devoid of collaborative principles that it engaged in two self-destructive civil wars. Now, however, veto-points and autonomous extra-parliamentary agencies would limit space for political manoeuvre and conflict to such an extent that partisan interest groups and political actors had no choice but to resolve conflicts by way of bargaining and amicable agreement. If we brand this particular way to arrive at amicable agreements a tradition of democratisation, it indeed comes eerily close to the Dutch pacification tradition. As the Dutch pacification tradition, the European pacification tradition emerged in response to both domestic and geopolitical challenges; in particular an awareness of the impossibility to challenge US dominance.

### 8.3.2 Financial institutions' strategies of democratisation

In Figures 8.1 and 8.2, I visualise the growth of the different financial institutions in terms of total amounts of deposits received and total assets accrued. In Tables 8.4a and 8.4b, I provide more specific growth and marketshare figures. Table 8.5 provides a ranking of the effectiveness with which commercial banks, mortgage, savings and co-operative banks have deployed each strategy during the period 1930 to 1965. Finally, in the subsequent sections, I expound on the above variety of financial institutions' ability to deploy the six strategies of democratisation; and how their differential abilities underlie their differential economic success.

**Table 8.4a: Growth and marketshare of varieties of banks (total assets)**  
(millions of Guilder)

<i>Year</i>	<i>Commercial Banks</i>	<i>Co-operative Banks</i>	<i>General Savings</i>	<i>State Postal</i>
1930	4181	579	480	491
1940	2537	582	538	624
1945	5381	2993	1161	1998
1950	5265	1975	1241	1603
1960	11684	5163	3202	2995
1970	48568	19376	9125	6641
<b>Growth x</b>	<b>11.6</b>	<b>33.5</b>	<b>19</b>	<b>13.5</b>
<b>Share %</b>	<b>58</b>	<b>23</b>	<b>11</b>	<b>8</b>

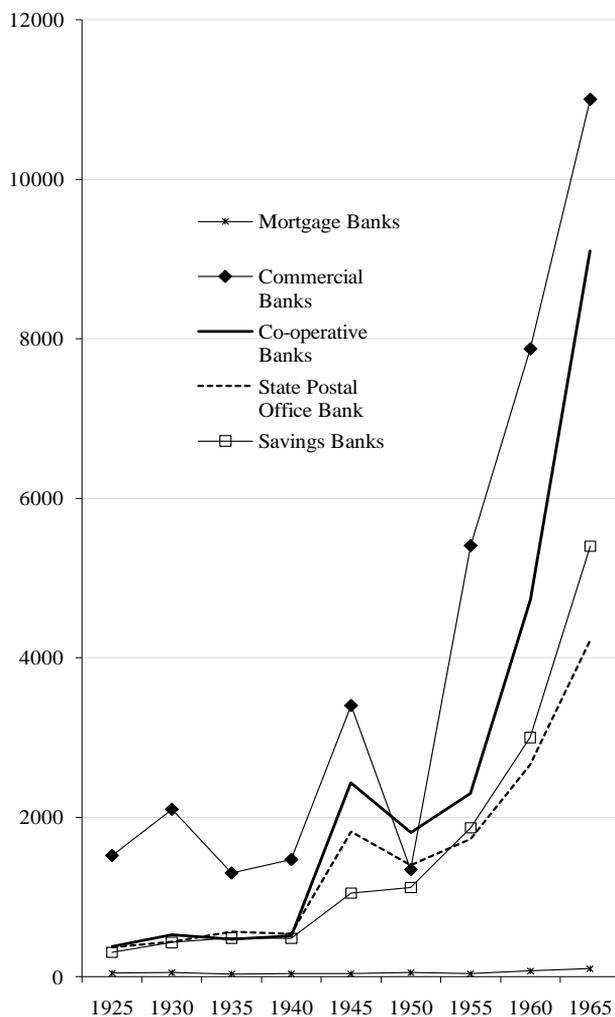
**Table 8.4b: Growth and marketshares of varieties of banks in terms of deposits**  
(millions of Guilder)

<i>Year</i>	<i>Mortgage</i>	<i>Commercial</i>	<i>State Postal</i>	<i>General savings</i>	<i>Co-operative</i>
1930	52	2100	440	430	525
1935	35.7	1300	565	485	468
1940	37.5	1469	535	480	514
1945	39.5	3400	1820	1050	2433
1950	52.1	1342	1400	1120	1810
1955	37.5	5405	1730	1870	2300
1960	73.5	7872	2660	3000	4730
1965	102	11000	4220	5400	9100
<b>Growth x</b>	<b>1.96</b>	<b>5.23</b>	<b>9.59</b>	<b>12.56</b>	<b>17.33</b>
<b>Share %</b>	<b>0.4</b>	<b>36.9</b>	<b>14.1</b>	<b>18.1</b>	<b>30.5</b>

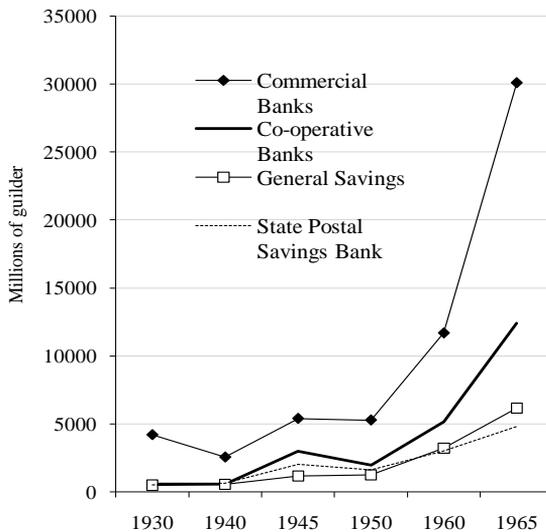
**Table 8.5: Ranking of Dutch varieties of financial institutions per strategy for the period 1930-1965** (1=highest, 5=lowest)

	<b>Commercial banks</b>	<b>General Savings banks</b>	<b>State Postal Savings bank</b>	<b>Co-operative banks</b>	<b>Mortgage banks</b>
<b>Strategy a</b>	1	3	4	1	5
<b>Strategy b</b>	2	3	3	1	5
<b>Strategy c</b>	1	3	4	1	5
<b>Strategy d</b>	2	3	3	1	5
<b>Strategy e</b>	1	3	3	1	5
<b>Strategy f</b>	2	3	3	1	5

**Figure 8.1: Total Deposits NL Banks (1925-1965)**  
(millions of guilder)



**Figure 8.2 : Total Assets Dutch Banks (1930-'65)**



**Strategy a Help core customers fulfil their social class aspirations**

*i) Commercial Banks*

Two of the Big Four commercial banks became remarkably innovative vehicles of socio-economic mobility from the late 1950s onwards, in stark contrast with their pre-WWII credentials. The fact of the matter is commercial banks had no choice but to shed their pre-WWII reputation – “instrument of Regent capitalism”. For one, their prior source of assured income had all but dried up – low-risk stock market flotations, business deposits and mercantile finance. The volume of international trade in the immediate post-war years was not only too low, but also too restricted by tariffs and quotas. Lest being branded archaic elements in a rapidly changing world, Dutch commercial banks simply had to adopt a more domestic course (cfr. Jonker, 1991: 122-169).

In the 1950s, commercial banks started offering medium term credits to small and medium enterprises (SMEs), to compensate for the concurrent loss of large business deposits (see table 7.4b, period between 1945 and 1950). The general public, by contrast, for much of the 1950s still perceived commercial banks as exclusive institutions who were not interested in people banking. At long last, two banks entered the retail banking fray in the late 1950s: the Twentsche Bank and the Amsterdamsche Bank. The Twentsche Bank introduced deposit-bankbooks, the personal loan (1958), the salary account (1959), investment funds and budget credits. The Amsterdamsche Bank, for its part, launched the

use of consumptive credits in the Netherlands – one of the earliest signs of US middle class traditions of consumerism creeping in. Both banks pioneered the use of competitive interest rates on savings, transfer payments practically free of charge, as well as the development of attractive new insurance and investment products. In many ways, these banks’ pioneering activities heralded the start of commercial retail banking in the Netherlands (Van Zanden and Uittenbogaard, 1999: 343-349). The pursuit of savings deposits in particular was needed to meet the increased demand for medium term credits from Dutch SMEs – and the concurrent decline in SMEs’ deposits. By 1960, commercial banks had managed to capture 8 percent of the savings market from the specialised institutions – the State Postal Savings Bank and General Savings banks. This share had increased to 16 % by 1970 (see table 8.6). The only commercial bank to lag in these developments, the Rotterdamsche Bank, reconsidered its deteriorating economic results in the beginning of the 1960s<sup>563</sup>; upon which it accepted the proposal of the Amsterdamsche Bank to merge in 1964 – the Amro bank was born.

**Table 8.6: Shares of different varieties of banks in the savings market**  
(in percentages)

	1950	1960	1970
<b>State Postal Savings</b>	32	24	18
<b>General Savings</b>	29	28	25
<b>Co-operative Banks</b>	37	39	42
<b>Commercial Banks</b>	1	8	16

*ii) Savings Banks*

By the 1930s, general savings banks had managed to get their share of the Dutch savings market back to its original peak – attained first at the turn of the century. The State Postal Savings bank’s business was prone to less variability. After 1950, the whereabouts State Postal and general savings banks followed a more synchronised pattern; unfortunately, a declining one. As the general Savings Banks, the State Postal Savings Bank tried to mobilise potential savers, not by luring them away from competitors with more attractive services, but by linking their calls for more saving fervour to the argument that consumerism was bad – neither in customers’ individual interest nor the public interest. This type of paternalism was not very strategic in face of the slow, but steady infiltration of US middle class, consumerist traditions in the increasingly affluent Netherlands. More than anything, the emerging popularity of commercial banks’ consumptive credit services symbolised this infiltration. From the end of the 1950s onwards, the savings bank lost marketshare to commercial banks – and to a lesser extent the co-operative banks – at an alarming rate. That is because the State Postal savings bank was unable to compete on interest rates as the other varieties of banks could. Also, their target population of the lower ranks was not the most interesting one in an increasingly affluent Dutch society.

*iii) Co-operative banks*

In contradistinction with the savings banks, Co-operative banks adapted rather successfully – albeit grudgingly – to new social class aspirations after WWII. For one, they started offering agricultural credit services on a more generous basis, timidly in the 1930s, more ambitiously in the ensuing decades. Gone were the days Co-operative banks were credit vehicles by law, but savings vehicles by practice. This resulted in an enormous

expansion of their activities and balance total. The most important elements accounting for this expansion were the land consolidation, which forced farmers to make large investments, and the modernisation of agriculture, which induced the acquisition of expensive machinery (Brusse, 2000: 227).

Contrary to commercial banks, co-operative banks made this transition in a very gradual way. Although their business had suffered somewhat in the wake of the financial crisis at the turn of the 1930s, Co-operative banks remained unfamiliar with issues of credit overextension and bankruptcy.<sup>564</sup> This explains why the growth of Co-operative medium credit services to SMEs demonstrated a more steady pattern since the 1930s (Van Seenus, 1945: 114). Surprisingly, the Dutch scientific press was increasingly united in its positive appraisal of Co-operative Banks. For instance, the influential, but generally critical Verrijn Stuart in 1938 spoke highly of the increasing importance of Co-operative Banks for agricultural credit, especially concerning short term credits. Similarly, Valstar in 1938 praised Co-operative Banks for the invaluable service done to agriculture and horticulture. Van Stuijvenberg, finally, in 1949 argued that the credit co-operatives succeeded in cultivating the niche of agricultural credit provision in an exceptionally successful fashion (Van Stuijvenberg, 1949: 76-94).<sup>565</sup>

iv) Mortgage banks

Mortgage banks remained a very flawed vehicle of social mobility in the post-WWII period. For one, contrary to their English counterparts, the building societies, they could not use a growing deposit and share basis as a growth platform. Troubled by a legacy of bankruptcy and other mismanagement scandals, Dutch mortgage banks during the interwar period by and large held on to a “purity” principle that precluded them from engaging in other financial functions than those guaranteed by first mortgage bonds. They did open up their services to private placements during the 1950s; but only those of the less popular kind – those without the short-term, easy withdrawal facilities offered by commercial and co-operative banks. After a brief recovery in the first post-WWII decade, the boom years of 1955 to 1970 witnessed the increasing diversification of commercial banks in the mortgage lending business; as well as the expansion of pension funds’, real estate and insurance companies’ stake in the market. As a result, the special-purpose mortgage banks soon lost ground again. The Co-operative Banks of course had long established their own specialized mortgage banks, who now were reinvigorated through cross-selling practices. Not surprisingly, the latter mortgage banks slowly but surely expanded their share in the mortgage lending market from about 10 to 20% (see Appendix R, Table 3).

**Strategy b Cater to customers of different social classes**

i) Commercial Banks

By virtue of adopting a pre-eminent role in the post-WWII retail banking revolution, Dutch commercial banks emerged as champions of consensual democratisation – in contention with the Co-operative Banks. Commercial banks not only diversified into a great number of retail and SME services.<sup>566</sup> They put great emphasis on branch development in the provinces.<sup>567</sup> This allowed them to gain access to an increasing diversity of aspiring social classes, in particular the vanguard of the financial “breakthrough” movement: the emerging non-denominational group of aspiring middle classes, and even farmers – albeit initially only that small minority of a liberal signature. Different from the Co-operative banks, however, the question has always remained for

commercial banks whether the latter were core customers or not. The answer was that as soon as the opportunity structure for international “Regent club” aspirations improved – in the latter 1960s, commercial banks such as AMRO and ABN would jump on the opportunity to give those customers priority.

ii) Savings banks

From the 1950s onwards, savings banks were vehicles of consensual democratisation in secular decline; by default of an alternative strategy to their self-destructive anti-consumerism – self-destructive in an increasingly prosperous society with an emerging middle class consciousness.

iii) Co-operative Banks

In terms of reinventing the tradition of Orangist democracy, the Catholics were best positioned in the post-WWII years. Catholic co-operative banks had additional advantages. Not only did the Catholic pillar represent the biggest chunk of the social class of farmers. Almost all farmers were co-operative members. Only 10 % of farmers – mostly of a liberal signature – did not belong to any cooperative, 20% belonged to 3 co-operatives and 40 % to 4 or more co-operatives (Abma, 1956: 49-50).<sup>568</sup>

Catholics weren’t unfavourably placed regarding the tradition of pacification either – the principle that rivaling factions and classes should depoliticise and resolve differences behind closed doors; at least, when applied to sources of strife within one’s own pillar. This observation applied less to inter-denominational sources of strife. The episcopal interdiction of membership in non-Catholic organisations and vice versa explains Catholic Co-operative leaders’ reluctance to provide services to non-farmers and non-Catholics. Unfortunately, this reluctance limited their abilities to foster consensual democratisation. The opportunity structure for protestant-neutral co-operative leaders was almost the opposite; arguably less able to foster total consensus within a denominational pillar, they held a distinct advantage as to the fostering of cross-denominational consensus.<sup>569</sup> Indeed, it were the protestant-neutral banks who first to take advantage of the lack of “modern” appeal of Savings Banks; by gradually expanding their work area to urban regions, and by introducing a service differentiation between members and customers.

**Table 8.7: Comparison total assets of Big Four banks and Co-operative banks at the end of 1960 (millions of Guilder)**  
(Source : Wilson, 1962 : 201)

<b>Bank</b>	<b>Total assets</b>
Amsterdamsche Bank	2,509
Nederlandsche Handel-Maatschappij	2,308
Rotterdamsche Bank	1,621
Twentsche bank	1,535
<i>Co-operative Banks</i>	<i>5,163</i>

### **Strategy c Make State policy on economic citizenship by “fait accompli”**

#### *i) Commercial banks*

It is only by the 1960s, when commercial banks' activities in consumptive credits and Eurodollar markets were getting off the ground, that it became clear that commercial banks would shape policy as much as be shaped by it. Before the 1960s, Co-operative banks clearly had an edge over commercial banks, be it regarding the State's encouragement of credit services to small and medium enterprises (SMEs), or personal saving services.

Commercial banks were first brought into contact with medium term credits to SMEs during the early post-WWII years, when Minister of Finance Liefinck proposed the establishment of a national Reconstruction Bank, the "Herstelbank" (1948). A joint venture between the government and the financial sector – the commercial *and* co-operative banks, this bank played an important role in the recovery of Dutch industry over the decade following World War II. Testifying to their willingness to advance government policy, Commercial banks participated for 49 percent in the share capital of the Herstelbank and were closely involved in the operations of the bank.

Clearly, the Herstelbank was not an indefinite project. From the 1950s onwards, commercial banks started helping SMEs back on their feet without State intervention. From the earliest post-WWII years, banks adhered to the fundamental principle of non-engagement in industry, as industry spokesmen at the time had expressed reservations about banks' influence on their strategic decision making processes. In doing this, banks anticipated and respected the 1952 banking act – which stipulated the separation between banks and business, prohibiting French-style *banques d'affaires*.

In terms of providing medium term credit, commercial banks more than co-operative banks suffered the competition of a more special-purpose entity in the SME market, the « *Nederlandsche Middenstands Bank* » (NMB). Founded in 1927 on instigation of a State Committee, the NMB was rather successful. Its total assets amounted to 731 million guilder by the end of the 1950s, hardly a ridiculous figure in comparison with the Big Four's own performance (see table 7.8). It would remain a formidable competitor through the second half of the 20<sup>th</sup> century.

#### *ii) Savings banks*

Arguably, general savings banks' statutory autonomy from the State added to the perception that they were more innovative than the State Postal Savings Bank, anticipatory rather than reactive vehicles of democratisation. For instance, general savings banks several decades before the establishment of a State-Sponsored Savings Council (1948) had anticipated the need to encourage the unlikeliest groups of citizens, including the young, non-voting ones, to become more diligent savers. Another explanation for the lagging expansion of the State Postal Savings Bank in the post-WWII period were legal restrictions regarding the level of interest the State Postal Savings Bank could offer. Both types of savings banks were on an equal footing, however, when it came to their capacity to anticipate the State's increasing tolerance for middle class, consumerist US traditions from the late 1950s onwards.

#### *iii) Co-operative Banks*

From the 1930s to the mid-1960s, Co-operative banks peaked as aspirational vehicles of economic citizenship. They were best able to anticipate policy changes in the agricultural sphere, enabling the Dutch State to make policy largely on the basis of *fait accompli* – including at the EEC level. From the 1930s onwards, co-operative banks made

direct government intervention in the agricultural sector largely unnecessary – although first hesitantly (Brusse, 2000). To spare themselves further criticism of the social-democratic and liberal parties, co-operative banks fully adopted their new ambitious guise. From the early 1950s, co-operative banks were instrumental in carrying forward the aim to produce an economically responsible farming and truck marketing businesses. Partly due to their credit services – increasingly conditional on a willingness to engage in ambitious rationalisation plans, Dutch agriculture from a lagging student became the European favourite in terms of specialization, export-orientation and labour productivity – the agricultural share of the national labour force declined from 22.4 % in 1930 to 12.7% in 1960 (see Appendix X). In sum, co-operative banks helped to pioneer an entirely peaceful cultural revolution in the Netherlands which was the envy of other EEC member states; ultimately leading to the wholesale adoption of the Dutch model at the European policy level (cfr. Smits, 1996).

In terms of anticipating monetary policy, the co-operative banks made substantial progress too. They gained a clear vantage point during WWII, when they managed to keep the German administration at bay, in contrast with the savings and commercial banks.<sup>570</sup> The Catholic co-operative bank enjoyed an additional bit of good fortune. Since the southern part of the country had already been liberated in September 1944, the Catholic Central was accorded the function of Central Monetary Institution in advance of other financial institutions. The appointment of the director of the Catholic Central, Huijsmans, as Minister of Economic Affairs in 1945 further improved Co-operative Banks' vantage point regarding future policy changes.

Significantly, co-operative banks beat commercial banks to the punch when it came to expanding retail and credit services to the Western cities of the Netherlands.<sup>571</sup> Significantly, co-operative banks were instrumental in boosting the modernisation of the agricultural industry – thus carrying forward and anticipating the fledgling regional policy of the Dutch government and the EEC.<sup>572</sup> At its inception in 1952, Dutch regional policy was aimed at combating structural unemployment figures, with special attention to the rural areas in the North and South of the country. Regional policy evolved towards the aim of boosting the modernisation of old industries. In particular, from 1959 the new overriding purpose was to boost industrial and economic activity away from the Randstad – the “home counties” of the Holland financial establishment (Bachtler, 2001).

Finally, Co-operative banks anticipated the declining importance of agriculture for the Dutch economy, by unobtrusively expanding their services to non-agricultural customers and SMEs. While 20 percent of the Dutch working population was engaged in agriculture in 1930, and in 1947 19 percent, the figure declined thereafter to reach 9 per cent by 1965. Co-operative banks' greater attention to the non-agricultural section of the population manifested itself particularly through efforts to attract savings as well as by establishing offices in urban areas. By 1965, more than 50 per cent of savings deposited with Co-operative banks in 1965 originated from the non-agricultural population.

iv) Mortgage banks

The destruction of large swathes of housing during WWII must have filled some of the more eager mortgage bank leaders with a sense of anticipation. Indeed, the post-WWII housing boom should have been good news for the mortgage banks. That is, were it not for a few dire lessons learnt a decade before. The 1930s had been a disastrous decade for mortgage banks, and their ambitions to shape policy more than be shaped by it. The house market crisis in the mid-1930s for the first time revealed the extreme volatility

of the combined conditions of an uncoordinated mortgage market and a booming housing market<sup>573</sup>, with devastating long-term effects for Dutch mortgage banks. The crisis to a significant extent was attributable to the unwillingness of private capital providers – mortgage banks, private landlords, pension funds, insurance companies and other institutional investors – to work together. Worse, the general perception was that these capital providers in fact were engaged in a rather immoral competitive race to sell as many mortgages as possible in a declining housing market (Bakker Schut, 1935; Glasz, 1935: 28). Not only did the mortgage banks' economic results rapidly deteriorate – after a short growth spurt in the late 1920s and early 1930s. In many ways, the traumatic experiences of the 1930s politically forever closed the doors to a specialised mortgage banking sector and corresponding capital-regime for home ownership in the Netherlands, akin to the English building society sector and the German system of Bausparen – with their corresponding specialised system of fiscal incentives. The Dutch central bank was able to impede a separate capital regime for housing, in a way it was unable to regarding co-operative banks and the agricultural sector.

After WWII, the government did not express a preference for any type of tenure or private housing vehicle. Yet, largely unintentionally, the tide would slowly turn in favour of the social rental sector and housing associations. The general expectation in the first WWII years was that building costs would soon decrease as they had after WWI. In other words, the need for general subsidies would be temporary and rents after a few years would be adjusted to their normal cost-price level<sup>574</sup> (Siraa, 1989: 82). Yet, contrary to what had happened in the 1920s, building costs continued to rise faster than general inflation, which in turn led to the need for continued bricks-and-mortar subsidies. All this was to the advantage of housing associations, whose non-profit character impelled them to keep rents below the market clearing level anyway. Because rent made up a relatively large share of the outgoings of average household income, it was of great significance to national income policy. Any sharp rent rise was likely to prove politically controversial. By the 1960s, housing associations' low-rent policy had become so electorally incontournable that they inevitably ended up being the "preferred providers" of housing (Commissie De Roos, 1946; Faber, 1997).<sup>575</sup>

Beyond all this, mortgage banks suffered from a Dutch housing policy, which in comparative perspective – in terms of value and magnitude – lagged behind the Western-European average. This was especially the case for the middle and wealthier classes who were eager to buy private property, but who were not given the same incentives as in other Western-European countries by a government keen on retaining a consociational grip on the economy (Feddes, 1995).

#### **Strategy d Translate State policy on economic citizenship**

##### *i) Commercial Banks*

In many ways, commercial banks started to translate State policy about economic citizenship – the promotion of savings – out of necessity. With the inflow of business deposits largely stemmed, and foreign incomes very much on the wane, commercial banks were rather desperate for new cheap ways to finance their expansion strategies. To take up their emerging, supplementary role as retail finance providers and compete credibly with the savings and co-operative banks, commercial banks had to expand considerably. The entrenched position of the co-operative banks and the State Postal savings system pre-empted a simple branching out strategy. At least two of the Big

Four banks, the Nederlandsche Handel-Maatschappij (NHM) and the Twentsche Bank, simply lacked the means to finance such a strategy anyway. The former still smarted from losing its Indonesian business after nationalisation in 1960; the latter drifted somewhat aimlessly about, its board unable to decide how to stem the slow erosion of profits and capital. Twentsche did attempt to expand its deposits base by introducing simplified private accounts in 1959, but the bank failed to attract new customers in sufficient numbers. There was no alternative but to merge really. Keen on keeping a competitive commercial banking sector and having as many retail finance outlets as possible in the country, the Dutch Bank allowed several commercial banks to merge. In 1964, NHM and Twentsche agreed terms for a merger into ABN Bank. The Amsterdamsche Bank and Rotterdamsche Bank felt they had no choice but to follow suit; they merged into Amro Bank later in 1964. The two new banks followed a different expansion strategy; while ABN remained true to its roots by pursuing a dual domestic-international strategy, Amro Bank focused exclusively on the Dutch market (Barendregt and Visser, 1997).

ii) Savings Banks

Co-operative banks proved to be more resilient and stable savings vehicles than the other banks engaged in savings during WWII. Indeed, German occupation caused a lot more turmoil and turnover in withdrawals and deposits at the Savings than at Co-operative Banks – although the latter wasn't spared altogether (Van Campen et al., 1940 : 346-351). For one, the continued withdrawals at the general Savings Banks and the State Postal Savings Bank in 1941 even resulted in a negative balance: 48,8 million guilder for the State Postal Savings Bank, and 13.2 million guilder for the General Savings Banks.<sup>576</sup>

Not surprisingly, when the Ministry of Finance in 1948 launched the National Savings Council<sup>577</sup>, not only the general Savings banks and the State Postal Savings Bank were invited to join the council; the co-operative banks were too. The main motive for the foundation was to halt the decline of savings, by encouraging saving habits amongst both adults and children (Dankers et al., 2001: 276). Clearly, co-operative banks remained more successful savings vehicles after the institution of the National Savings Council, while either type of savings banks seemed unable to stop the tide of decline after 1950 (see Table 8.7).

iii) Co-operative Banks

In terms of translating State policy about economic citizenship in a set of economic propositions adapted to non-core customers, Co-operative Banks were at least on a par with commercial banks. As early as the end of the 1930s, Co-operative Banks received recognition by a cross-section of economists and politicians for their stable and competent management; they had become mainstays of Dutch agricultural life and policy (Sluyterman et al., 1998: 44). Remarkably, this recognition to a significant extent was due to co-operative banks' competent management of non-core businesses: i.e. promoting savings and paying out agricultural subsidies to local agricultural co-operatives. When during the Second World War Co-operative Banks yet again proved to be highly reliable entities, nothing could stop them from becoming mainstays of financial policy too. Although the financial establishment only slowly and grudgingly accepted the Co-operative leaders amongst their midst. Derogatory sneers in the vein of "those farmers" or those "outer province people" would linger for decades.<sup>578</sup> Nevertheless, when Minister of Finance Lieftinck in July 1945 launched plans for a large-scale monetary reform – entailing the handing over of paper money to banks by all citizens – he appealed to an equal extent to Co-operative and Commercial Banks to implement these measures. In spite

of the enormous increase in working load, the Co-operative Banks were quick to show their approval: “The Minister appealed to our organisation for the monetary reform; though this gives us mountains of work and many worries, we have to consider that we now have arrived at our rightful place.”<sup>579</sup> The monetary reform induced almost every household to open a bank account. Because Co-operative Banks had the most extensive regional spread, in many cases they were the preferred bank for new depositors.<sup>580</sup> Remarkably, almost none of the opened accounts was closed between 1945 and 1950.

Apart from receiving a pivotal role in the government’s monetary reform plans, the Co-operative Banks were also entrusted payments of war damages, government subsidies within the scope of agricultural policy, and many more measures to do with post-war reconstruction. Because the vastly increased working load was now surpassing the capacity of Co-operative Banks, these had to streamline their operations, for instance by rationalizing the system of transfer by giro. This had the positive effects of further expanding the services and familiarising many households with transfers by giro. The two Central Co-operative Banks increasingly became intermediaries between local co-operative banks and State policy, as executed by the Dutch Bank, particularly with the passing of the second banking law (1952). Astoundingly, with the passing of that law Co-operative Banks, Savings Banks and Commercial Banks for all legal purposes – except for the fiscal privileges of the first two – would all be considered on a par, under the common denominator of “banks”.

By 1957, already some 47 percent of savings originated from outside of the core group of agricultural and horticultural farmers. The “petty bourgeoisie” accounted for some 8.5 percent, the working-class for some 15.4 percent, and small and medium enterprises accounted for some 11 percent. Similarly, by 1958 only some 63 percent of credits and loans were attributed to farmers. The remaining 37 percent went either to public bodies (21 percent) or private persons (16 percent). The increase of credits offered by the Co-operative Banks in the post-WWII period (1948-1958) was similar to the increase experienced by the Commercial Banks. While credits rose at a percentage rate of 245.4 percent at the latter banks, credits increased with respectively 256.2 and 213.2 percent at the catholic and protestant-neutral Co-operative Banks (Van Campen, 1959: 19, 24-26).<sup>581</sup>

Finally, the two Co-operative Centrals had set up two mortgage bank subsidiaries in the first decades of the twentieth century. These subsidiaries were making substantial inroads in the mortgage bond market. Before WWII the two subsidiaries together accounted for about 5 to 10 percent of the market. In the period 1956-1965 this percentage doubled, fluctuating between 10 and 20 percent (see Appendix R, table R.3).

*iv) Mortgage banks*

The first decade after WWII was somewhat disappointing for the mortgage banks, as the housing market was subject to rent controls and dominated by government financed housing corporations and local councils. Nevertheless, the mortgage banks had profited from their exemption from all kinds of post-WWII legislation on financial services. So, mortgage banks were allowed to issue bonds on tap, rather than being subject to the so-called “calendrier”, a waiting list for bond issues administered by the Dutch Bank with a view to preventing disruptions of the bond market. Able to circumvent the calendrier legislation, which was in force from 1946 until the deregulation of the Dutch capital market in 1986, mortgage banks could use mortgage bonds to immediately adjust their credit interest rates to changes in market conditions, and attune the volume of

borrowing to the volume of lending. In addition, in contrast to other bonds, mortgage bonds could be sold directly by the mortgage bank issuers, either through the own branches or through other Commercial banks. The only thing mortgage banks were not allowed to do was to attract funds for periods shorter than two years. Because of these advantages, mortgage banks kept funded themselves exclusively by issuing mortgage bonds – complemented by some private placements.

Nevertheless, mortgage banks would fail to play a pivotal role in housing policy. Things had seemed to brighten up when the government, in an effort to stimulate home-ownership, in 1956 began to grant subsidies to owner-occupiers of newly built houses and enabled local authorities to provide mortgage guarantees.<sup>582</sup> Yet, what should have been a boost to mortgage banks' ambitions turned out to be very mixed blessing indeed. For one, mortgage guarantees were meant for low-income groups, not exactly mortgage banks' target group. Also, while providing a temporary fillip to mortgage banks' balance sheets, this measure sowed the seed of future difficulties. The availability of government guarantees meant that specialised knowledge of the housing market was no longer a prerequisite to prosper in the mortgage loan business. After all, home owners who defaulted on their mortgage would be bailed out by the State; so not much was gained by the financier if he had an accurate idea of the value of the house in case of foreclosure. As it happened, this made it attractive for non-specialised types of banks – savings, commercial and co-operative banks – and institutional investors – such as insurance companies – to enter the home loan market. Eventually, the measure entirely eroded the distinctive competence of mortgage banks and precipitated the ultimate foundering of independent mortgage banks in the late 1970s (Barendregt and Visser, 1997: 179-180).

But the writing was on the wall much earlier than this. Unable to shed their anti-interventionist roots (Janssens, 1992: 35), mortgage bank leaders simply did not fit in the Dutch government's intensely interventionist housing framework – “the most comprehensively interventionist in Western Europe” (McCrone and Stephens, 1995: 75). As early as the 1950s, the tide was definitively turning to the advantage of the social rental sector and the housing associations – the latter holding a much more positive view of government policy. The 1964 advisory report of the De Roos Committee confirmed what most observers had long concluded: housing associations' were and should be the government's “preferred providers” of housing (Commissie De Roos, 1946; Faber, 1997).<sup>583</sup> That is, at least in the social rental sector; but of course this sector accounted for more than 60% of new housing.

### **Strategy e Become a champion of national character**

#### *i) Commercial Banks*

To become a champion of Dutch national character one has to excel at the country's historical success model of “Dutch nonconformism”: reinforce local privileges and traditions by pioneering a low-cost and pragmatic geopolitical vantage point; a vantage point conducive to a spill-over of the benefits of dominant international standards, techniques and agreements.

Commercial banks came second in the race to become such champions after WWII. Devoid of its colonial legacy, the intensely provincial character of the Netherlands had become blatant to any observer. This suited Co-operative Banks better; as did the first phase of the creation of a European identity. The European Economic Community up to the 1970s focused on agriculture more than financial services or monetary union.

Commercial banks came a close second, nevertheless. After all, in so far as it existed, the Dutch national identity throughout the prior five centuries had been pervaded by notions of sound finance and Regent capitalism. While waiting for better times, the Big Four commercial banks adapted to the situation, by expanding throughout the outer provinces of the Netherlands. Their strategy of branching out consisted foremost of buying up banks in the provinces to fill outstanding gaps. More than English clearing banks – including the comparatively devolved Barclays – Dutch commercial banks’ City headquarters allowed provincial institutions and branches to retain their local identity – in recognition of the Dutch predilection for local particularisms and provincial traditions (Wilson, 1962: 202-203).<sup>584</sup> The two bank mergers in 1964 further boosted commercial banks’ national champion potential. For one, despite the restrictions set out in the second banking act (1952), the Dutch Bank approved the two bank mergers because it wanted to strengthen the position of Dutch banks in the EEC and the international financial playing field at large. Furthermore, the merger between *Amsterdamsche* and *Rotterdamsche* in *Amro* signalled the pacification of acrimony between the two financial establishments in both Holland cities. The second merger, finally, testified to the willingness of the bank representing the old textile industries in Twente to modernise in conjunction with the mother of all colonial banks, the *NHM*.

ii) *Savings Banks*

Co-operative banks beat general Savings Banks to the punch in terms of regional spread; State Postal Savings Bank did enjoy a good regional spread. Yet, their legal inability to engage with international developments, meant they were no match for Co-operative Banks’ exemplary role at the forefront of emerging international standards and agreements – in casu the new European agricultural model.

iii) *Co-operative Banks*

More than any other banks, the symbiosis of the Co-operative banks during the period 1930-1965 symbolised the unintentional emergence of a new post-WWII national consciousness. This feat was largely unintentional, since co-operative banks considered themselves champions of consociational particularism more than anything else. But several things conspired to turn co-operative banks’ predilection for consociationalism in a platform for a new Dutch national consciousness. For one, protestant-neutral co-operative leaders as early as the 1930s interpreted the fragmented nature of agricultural consociationalism as a practical source of creating “unity in diversity”. Thus, they boldly stated in 1938: “Something is happening in the agricultural sector whose importance cannot be underestimated. Many thousands of people of all kinds of beliefs and ranks are striving to serve to bring to fruition our sources of national life and welfare. Not to enrich themselves, but to serve purely altruistic aims. Thus a great strength of the entire nation lies in the agricultural sector.”<sup>585</sup> The post-WWII development by Catholic co-operators of the notion of “personalism”<sup>586</sup> as an alternative to both US consumerist traditions and social-democratic “breakthrough”<sup>587</sup> aims, provided another practical vehicle for the creation of Dutch unity in diversity. With their principle of personalism Catholics initiated an ingenious re-linking of the national tradition of living-together-apart to the new reality of a growing Dutch State apparatus – personalism entailed a form of pluralism that allowed for the voluntary grouping of different “spiritual” families in a corporative structure, by extension the State. The establishment of a national Agricultural Board, in which leaders of both Co-operative Banks had a seat, further helped pacify ideologically moot points in the pragmatic name of international efficiency.<sup>588</sup> Finally, in defiance of the official orders

of the two Co-operative Centrals, the two groups of local co-operative banks came ever closer together during the late 1950s and 1960s, thus providing a pioneering example of increasing unity in diversity on the ground.

*iv) Mortgage banks*

Mortgage banks simply could not follow the example of English building societies and become the champions of modernised national traditions, in spite of housing policy emerging as a main focus of national reconstruction efforts after WWII. For one, the historical stigma on the mortgaging of real property lingered well into the 1960s undermined; it had been reinforced by the failure of private investors and mortgage banks during the 1930s.<sup>589</sup> Furthermore, arguably since the 1950s, and certainly since the early 1960s, housing associations' combined the role of national champion of high-quality, low-cost housing and spatial desegregation, with a maximum strategic involvement of a variety of local grassroots groups – fostering variety in the housing stock, and facilitating local solutions to problems of urban renewal and social neighbourhood development (Primus, 2006). Further compounding mortgage banks' problems, they were weakest in those provinces where housing associations were weak too. Thus, while in the provinces of Holland, Zeeland and also Friesland, 68 to 85 % of the growth in housing supply was attributable to subsidised housing. In the two core cities Amsterdam and Rotterdam this figure amounted to almost 100 percent. Not surprisingly, growth of the housing stock in these provinces was low. In the high-growth provinces of North-Brabant and Limburg, on the other hand, only 47 % of new housing was on account of social subsidies. Contrary to the situation in the former provinces, in the latter, predominantly catholic provinces, private ownership thus accounted for a sizeable part of new housebuilding (cf. Feddes, 1995: 432-433). In these provinces, however, the mortgage bank subsidiary of the Co-operative Bank prevailed.

**Strategy f Become a champion of the national economic interest.**

*i) Commercial banks*

During the 1930s and the first post-WWII years, commercial banks' influence on government policy through for instance the "Ondernemersraad", the main City lobby in those days, paled in comparison with co-operative banks' influence (Taselaar, 1998).<sup>590</sup> While the Ministry of Finance out of necessity after WWII increasingly put commercial and co-operative banks on a par, commercial banks celebrated their difference by establishing a new Bankers' Association (1949). This new Association was charged with the task to preclude the possibility of undue political interference, by ensuring a formal delimitation of the powers of the authorities – culminating in the second banking act (1952).

The Association also functioned as a cartel, facilitating price agreements about tariffs and provisions. Due to commercial banks' closeness to the Dutch Bank, the Association soon grew in stature – as demonstrated by the Dutch Bank's approval of the great bank mergers in 1964, in defiance of the second banking act.

*ii) Savings Banks*

Rather than function as a public-private prototype of modern national economic interest promotion, savings banks were unable to safeguard their private interests from increasing government encroachment. Already during WWII, the general and State Postal savings banks had suffered greatly from German encroachment in their affairs. After WWII, unwanted State interventionism continued. For instance, the Savings Association

was not at all happy with the social-democratic Minister of Finance's initiative to set up a Savings Council in 1947<sup>591</sup>. In effect, this legal decision took away from the savings banks the private prerogative on the promotion of savings. Worse, it publicly confirmed co-operative banks' equal stature as a savings institution. The State Postal Savings Bank, for its part, perceived the institution of the Savings Council as a sign that it should try harder in becoming the champion of national savings (Veluwenkamp, 1981: 30-32). Furthermore, the State Postal Bank endeavoured to safeguard its existence by increasing its public economies of scale, seeking a merger with the public Giro – money transfer – system.

iii) *Co-operative Banks*

Co-operative banks' interest group representatives were most successful during the period 1930-1965. I have discussed the comparative success of the agricultural lobby since the 1930s in attracting a disproportionate share of Dutch government subsidies. From the 1950s, European agricultural subsidies supplemented domestic government income – co-operatives' access to European policy was ensured with the appointment of Manshold as the first commissioner for agriculture in 1957. Furthermore, after WWII, all political parties aligned with the agricultural interest, allowing for the establishment of an Agricultural Board largely operating outside of the framework of parliamentary democracy.<sup>592</sup> Also, contrary to commercial banks, co-operative banks had long represented the interest of small business, and the virtues of local community and family life. This interest belonged to the core constituency of the powerful religious parties (Van Waarden, 1992b : 156), in turn benefiting Co-operative Banks' political clout. Finally, co-operative banks' business model of intra-community finance set the tone in the post-WWII period; it was actively promoted by the Dutch government in the 1950s and made up more than 70 percent of industrial investments up to the mid-1960s (Van Zanden and Griffiths, 1989: 217).

One direct sign of Co-operative banks' influence were the fiscal privileges accruing to them. In spite of commercial banks' protestations, the dividend payments by Co-operative Banks to members would remain non-taxable<sup>593</sup>. Although the profits that were not paid out to members were taxable, though at a lower rate than for Commercial banks (Sonnenschein, 1959: 149). The Co-operative Banks only paid 20 percent of corporation tax, compared to 45 percent for the Commercial banks – and 0% for the savings banks. In the 1960s the two Central Co-operative Banks acted together to thwart plans to abolish the fiscally preferential treatment of cooperatives.

The only apparent downside after WWII was Co-operative banks' lack of access to the Bankers' Association. There were several reasons for this. First, commercial banks labeled their co-operative counterparts special-purpose agricultural banks, not banks in their own right. Second, legally speaking, the Co-operative Centrals' confederal decision-making structure meant they did not meet a crucial condition: they could not formally impose binding cartel regulations with all affiliated local banks – albeit they wielded great influence in practice. Third, and most importantly, the Co-operative Banks were happy to confer separately with the Dutch Bank and through their own lobby organisations.<sup>594</sup> In sum, Co-operative banks did not need the Bankers Association. After all, through the Agricultural Board and the National Co-operative Council, the leaders of the central Co-operative Banks gained direct access to the Minister and the Department of Agriculture. In addition, the Agricultural Board was very influential in the Dutch Second Chamber – the equivalent of the English House of Commons. This influence was a consequence of a combination of factors, namely the prestige and expertise of the public corporation, the

almost single voice with which the agricultural members of the Second Chamber appeared to speak and the strong dependence on the confessional parties upon the agricultural vote in elections (Robinson, 1961: 61-64).<sup>595</sup>

A final reason for the comparative success of Dutch co-operative banking in presenting itself as the most appropriate vehicle of the national economic interest, was the relative closeness of the co-operative model to post-WWII provisions to encourage collaboration between capital and labour in firms. After a first Catholic proposal in 1919 for the institution of work councils – a proposal backed by Catholic employers as long as it did not involve giving further powers to the trade unions, in 1950 a law was passed which obliged every entrepreneur and director to give workers a voice in company affairs through a special-purpose Council (De Jong, 1971).<sup>596</sup> The increasing affinity between the for-profit company model and the co-operative model – at least in terms of grassroots worker representation – may go some way in explaining why the animosity against private enterprise amongst co-operators all but vanished in the 1950s.<sup>597</sup> What is more, to most farmers, the existence of non-cooperative endeavours now was a favourable condition for the sound functioning of cooperatives (cfr. Abma, 1956: 51).

iv) Mortgage banks

Above I maintained that the traumatic experiences of the 1930s politically forever closed the doors to a specialized mortgage banking sector and capital-regime for home ownership in the Netherlands, akin to the English building society sector and the German system of Bausparen – with their corresponding specialised tax incentive systems. This explains why, in spite of valiant efforts by the Mortgage Banking Association, the Dutch Bank was able to impede a separate capital regime for housing, in a way it was unable to regarding co-operative banks and the agricultural sector – allied in the Green Front.

One legacy of the past would keep haunting mortgage banks' efforts to influence policy: their sheer distrust of government interventionism – grounded in their nineteenth century Liberal legacy (Janssens, 1992: 35). Mortgage banks had signaled their willingness to participate in a common interest group association as early as 1928 – after the bankruptcy of a major mortgage bank in Hilversum. A first association was launched in 1936 – “Controle-orgaan voor het Hypotheekbankbedrijf”. Faced with German occupation, this association ceased to exist only six years later. It took another ten years, for a new Mortgage Association to emerge (1952). Yet, confronted with the much better organised housing associations, those usurpers of post-WWII housing policy, this was to no avail.

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<sup>502</sup> For a short clarification of the difference between monetarism and chartalism, see Chapter 4, endnotes 43 and 44. Plato is sometimes portrayed as the first proponent of the Chartalist theory of money. For Plato money comes into being only once a society has organized itself along continuous market lines, and social custom and legislation give money a unique symbolic importance in a system of real exchange – where “goods trade for money and money trades for goods, but goods do not trade directly for goods” (Clower, 1965). Aristotle, on the other hand, can be seen as a predecessor of metallism and even monetarism, with his insistence that money is not just a veil, but a commodity in its own right – “if money is going to be used in the market of commodities as a medium of exchange, it must itself be one of these commodities” (cfr. Schumpeter, 1954, History of Economic Analysis).

<sup>503</sup> The debate hinged on whether to aim a stable currency, or whether to aim at stability in the labour market and in levels of production. In the middle of 1934 those supporting devaluation formed their own organisation, the *Nederlandsche Vereeniging voor Waardevast Geld* », in which well-known economists sat alongside businessmen and politicians, not as representatives of the organisations to which they were affiliated but as individuals. By

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means of petitions and public discussion the association tried to focus attention on the arguments for devaluation and to put pressure on government policy (Griffiths and Schoorl, 1987). They were not very successful. The most significant pressure on the cabinet came from the president of the Nederlandsche Bank, Trip, a fiery supporter of the gold standard. The arguments against devaluation varied from moral considerations – devaluation amounted to debasing the currency, or, worse, a breach of promise- to warnings that leaving the anchor offered by gold would lead to inflation. Reference was often made to hyperinflation in Germany in 1923 (Griffiths, 1987).

<sup>504</sup> In face of an international economic depression and worsening cost/benefit ratios in the Dutch agricultural sector, Van den Heuvel, chairman of the protestant farmer association CBTB and member of Parliament for the Protestant party ARP, openly called for state intervention in the form of price subsidies for sugarbeets, potatoes and wheats. In the typical Regent conciliatory way, the government reacted by installing a committee composed of representatives of the farmer unions, Co-operative Banks, land-laborer organisations and agricultural issue groups. The catholic farmer union (KNBTB) called upon the government to cut taxes, improve planological water and road schemes, subsidize export and production in general, and introduce an export-negotiation tariff. Apart from asking state intervention, the best line of action for farmers would be to further improve agricultural innovation and know-how, introduce better bookkeeping techniques and rationalize production methods. Since protestant and liberal leaders called for comparable actions, the farmer unions were quick to agree on a program of urgency that was subsequently sent to the minister of interior and agriculture in June 1930.

<sup>505</sup> From early 1934 onwards, a quota system was forced on the Netherlands Indies, which fixed the quantities or the origin (mostly from the Netherlands) of goods imported into the country. The Dutch government wanted to help the textile industry in Twente, where thousands of jobs were at stake....This caused growing unease and anger among Indonesian politicians, made worse by the refusal of the government to give any substantial help to the sales of the Netherlands Indies products, such as sugar and tea, on the Dutch market (Taselaar, 1998: 623).

<sup>506</sup> Before WWII, the Dutch interest in Indonesia – both economic and political – was sizeable. While officially the economic contribution of the colonies amounted to some 13.7 per cent of the national income, the real effect of the Indonesian presence was much bigger. Apart from boosting industrial export, the Dutch Indies were of immense importance for the financial establishment in Amsterdam. It led to the trebling of the nominal capital value of all companies quoted on the Amsterdam stock exchange from 837,000,000 guilder in 1913 to 2,323,000,000 in 1939.

<sup>507</sup> Not before 1948 did the colonial lobby realise it should support Indonesian independence in return for the protection of Dutch economic and financial interests in the country. During the 1950s, the Netherlands industrialised quickly and the Indonesian contribution to the Dutch economy became less important. As mentioned before, this development had been foreshadowed during the 1930s, official rhetoric on economic cooperation notwithstanding. The nationalisation of Dutch economic interests in 1957-1958 hardly damaged the Dutch economy. The Dutch colonial lobby had by then become so irrelevant, that it was unable to influence Dutch policy on West New Guinea. The representatives of old-fashioned regented capitalism no longer had a role to play (Taselaar, 1998 : 624-625).

<sup>508</sup> This was the Truman-doctrine of “paranoid democratisation”.

<sup>509</sup> These organisations were named after the Committee headed by the Rotterdam banker Woltersom, who, following the German corporatist model, was in charge of accommodating and arranging the Dutch economy in six major corporate sectors. For a short period after WWII the Netherlands even had a Cabinet Minister for Corporatist Organisation.

<sup>510</sup> In the 1933 elections the socialist party – SDAP – for the first time in her young existence lost parliamentary seats – two – compared to the previous election.

<sup>511</sup> Banning was the first person to use this term (cfrr. Knechtmans, 1992: 91).

<sup>512</sup> Following the influence of Hendrik de Man (1927), who had distanced himself from Marxist ideology, the idea that socialism needed a “moral” dimension gained influence.

<sup>513</sup> Banning, 1933.

<sup>514</sup> Obviously, these proposals encountered fierce opposition from the Marxist section of the party. To accommodate Marxist grievances, the new social-democratic leadership proceeded to deny an explicit connection between life principles and socialist politics.

<sup>515</sup> This followed several crucial antecedents. The SDAP in 1926 had temporarily and in 1933 definitively stopped boycotting the opening of the Dutch Parliament by the Queen.

<sup>516</sup> Andeweg (1989 : 46): “the liberation had the effect of unleashing dreams and plans for a renewed country : “The experience of the occupation, during which long-time political foes had become allies in the Resistance, and during which visions of a more harmonious and co-operative world had developed, resulted in a conscious attempt by politicians from various parties to reorganise the party system, and to break through the political walls separating the subcultural pillars in Dutch Society.”

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<sup>517</sup> Nederlandse Volksbeweging

<sup>518</sup> The relation between the Catholic Party and Colijn's Reformed Party (ARP) deteriorated rapidly during the 1930s; the former lost faith in the latter's "reforming" élan and accused it of showing symptoms of "elite decadence" (Zwart, 1996: 33, 40-42).

<sup>519</sup> The Dutch Catholic bishops reaffirmed that the christian worldview was centred on the "corporative organisation of society" and, more particularly with regards to the business world, on "public corporation". (*De katholiek in het openbare leven van deze tijd*, Bisschoppelijk Mandement 1954, Utrecht: p. 24)

<sup>520</sup> Ibid, p.24-25. More precisely, the 1954 document was based on Pope Pius XI's opinions, as laid down in the encyclical *Quadragesimo anno*, in which he stated that "a perfect recovery will occur only, when, with the elimination of above-mentioned opposition, orderly corporations are established in society...whereby people are not classified according to the position occupied in the labour market, but according to the societal functions performed by each one" (cited in the episcopal 1954 document on page 25)..

<sup>521</sup> As early as 1935 social-democrats portrayed corporatism as a justified "preparatory phase" of socialisation. While many socialists still objected to confessional notions of a corporatist State based on "organic" traditions, they now envisioned a State as the representation of free public opinion. Political parties organised on the basis of the "voluntary membership of individuals who share the same principles" were to form the new foundation of the "general interest the state should defend". All in all, with each passing decade of failed radicalism, social-democrats became softer in their approach. They increasingly used the same Christian rhetorics in their discourses about the moral elevation of the people, not in the least because of the inflow of reformed intellectuals (Stuurman, 1983 : 240-243). In sum, Dutch sociali-democrats gradually moved to a position in which the acceptability of capitalism is toned down to a political judgement whether the economic organisations in question are sufficiently "in service of community" (Socialist Program, 1947). Special attention is given to a more balanced rule of law with regards to the relation between labour and capital. The emphasis on public corporations and the socialisation of "the principal means of production in the fields of industry, banking and transport" should be seen in this light, as part of the general strategy to solve the labour-capital antithesis (SDAP Program, 1937 : article 3). Important for the SMEs in general, and the farmers in particular, is the acceptance of a mixed economic order, a "democratic-socialist society" in which alongside public corporations, private "small businesses put on a sound basis...can perform an important function" (SDAP Program, 1937 : article 13).

The party programs of 1882 and 1895 were very deterministic in their vision on the historical development of society and the role of socialism in this. While Dutch socialists as late as the 1970s believed that history was on their side, the contradiction between historical predetermination – the transition from capitalism to socialism – and immediate necessity – economic issues within the current capitalist regime – forced them as early as the turn of the twentieth century to tone down this determinism (cfr. Tromp, 2002).

<sup>522</sup> Especially socialist and anarchist organisations were targeted in 1918.

<sup>523</sup> Thus, the curious situation arose that, while even prominent Catholics could retain their Labour party membership and seats in Parliament, very few Catholics considered it spiritually safe to retain an NVV membership card, attend NVV meetings or even read NVV literature.

<sup>524</sup> Subsequent documents reemphasised the need for Catholic unity in all social and political affairs, condemning uncompromisingly a broad range of non-Catholic ideas and their organisational carriers (e.g. *De katholiek in het openbare leven van deze tijd*, Bisschoppelijk Mandement 1954, Utrecht : 45). The most notable Catholic antagonisms expressed in these documents were liberalism, humanism, family planning, the socialist press and radio, the NVV, the Labour Party and of course the Communist Party. In particular, the document warned that "a breakthrough of the Labour Party would lead to an equally big destruction of the own catholic party. This came as a shock to the social-democratic trade union NVV. Its leadership believed it had managed to reassure the Catholic Unions that it was less interested in stealing its members than in fair worker treatment, freedom of choice and even differentiating itself explicitly from the Communist Party. In fact, it also came as a surprise to Catholic trade union leaders, who found the isolationist and anti-ecumenical document of the bishops not particularly consociational. As a result, there were reports of inter-union rapprochements. However, when the president of the Protestant federation, M. Ruppert, heard about impending interunion relations, he placed his organisation squarely behind the catholic bishops. This dealt the final blow to the socialist breakthrough movement. Still, practical collaboration continued through informal channels, especially between the catholic and socialist trade unions.

<sup>525</sup> A sample survey carried out by the Netherlands Institute of Popular opinion in 1956 (NIPO survey, 1956) provides a picture of what the relationship between religion and politics looked like according to the consociational model elite control and denominational pillars. The catholic KVP had the most loyal and exclusive voters' base : almost 95 percent of practising catholics voted on the party. One third of Labour voters were secular, another quarter were non-practising official Calvinists. Non-practising official Calvinists also provided

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the main support for the Liberals. The anti-revolutionary ARP also held a firm grip on practising Reformed Christians. The problem with the protestant-christian population, however, was that the Dutch Reformed Church, in contrast with the Roman Catholic Church, had known several schisms, the two most notable being the Secession (*Afscheiding*) of 1834 and the Protest of 1886 (*Doleantie*). As such, the protestant voters' base was much more diluted – in the sense of being spread over several parties, sometimes even secular – than the catholic voters' base (see also Appendix U).

<sup>526</sup> For instance, it was taken for granted that the real leader of the RKSP, Nolens, in 1918 could not become minister-president because he was a priest, while the Reformed Protestants could delegate the preacher Kuyper to the position of minister-president of the reformed preacher Kuyper.

<sup>527</sup> This opposition was influenced by the so-called Michael-movement of the Delft professor in work legislation Veraart, and principally relied on Catholic workers.

<sup>528</sup> Taking their lead from the Pope's *Rerum Novarum*, Dutch Catholics' understanding of corporate subsidiarity differed from the Reformed Protestant doctrine of "own circles", in that it purposively provided for, on the one hand, state-business collaboration, and, on the other hand, a distinction between the public and the private sphere. More particularly, the Catholic tradition was in favour of the State delegating public authority to private corporations, be they employer-employee councils, pastoral councils, or unions. Thus, unlike the Reformed Protestant tradition, the Catholic tradition prescribes not only harmonious co-operation between Capital and Labour, but also with the State. Remarkably, even more than the Protestants, the Catholics were against modern notions of the sovereignty of the people. As such, while being in favour of some democratisation as a means to gain corporate rights, the Catholic leaders clearly foresaw an elite/participant boundary of active versus passive democratisation. Indeed, in its peculiar, but clearly defined combination of a logic of outsider and a logic of establishment, the Catholic tradition arguably is the one drawing most on republican guild traditions (cf. Van Waarden, 1992a).

<sup>529</sup> By subsidiarity is meant that a higher instance – for example the State – cannot take over a task that a lower instance can fulfill, unless the lower parts seriously fail to fulfil their tasks.

<sup>530</sup> Some Catholic intellectuals such as Veraart (1938: 108) accused the government Colijn of semi-fascism, from which the Catholic party should emancipate as soon as possible.

<sup>531</sup> Partij van de Vrijheid

<sup>532</sup> Volkspartij voor Vrijheid en Democratie

<sup>533</sup> In terms of trade union and educational presence, in 1951, the Dutch christian democratic trade unions counted 533,000 members versus 405,600 for the social-democratic and 111,700 for the liberal trade unions. A communist trade union had split off the socialist trade union after WWII; it accounted for an estimated 163,800 members in 1951 (cfr. Fogarty, 1957: 212). Even more tellingly, in 1951 539,347 Dutch students attended public (neutral) education, 869,424 private catholic schools, and 508,176 private protestant schools. The system of specifically socialist education was much less elaborate. While the public school system was dwarfed by the private school system, it is also very telling that public university and higher education counted 23,779 students, while students attending catholic and protestant universities and higher education institutions merely numbered a respective 1,968 and 1,435 (Fogarty, 1957: 346).

<sup>534</sup> National recognition of the Bank of England's actual if not official lender of last resort duty came at the end of the eighteenth century, in response to wide-spread Tory criticism of the Bank of England's unwillingness to help out small provincial banks during the crash of 1793. This induced Francis Horner as early as 1802 to claim that the Bank of England was "a national establishment, not merely influencing, by the superior magnitude of its capital, the state of commercial circulation, but guiding its movements according to views of public policy (Horner, 1957: 51-2).

<sup>535</sup> In 1952 a separate act was passed that provided a more detailed legal basis for the regulation and supervision of the banking sector, called Act on the Supervision of the Credit System (*Wet Toezicht Kredietwezen, Wtk*).

<sup>536</sup> Nederlandse Bankiersvereniging

<sup>537</sup> Despite the improvement in banks' liquidity position in the 1960s – caused by inflationary finance policies and private sector balance-of-payment surpluses, from the mid-1970s it became customary for banks to be in the red with the *Nederlandsche Bank* (Barendregt and Visser, 1997 : 188).

<sup>538</sup> Agreements would then be formally issued by the Board of Government Mediators (CvR).

<sup>539</sup> Catholics' main purpose with corporatism was to harmonise class interests by constructing a functional framework in which communal conflicts would transcend conflict between different sections. The socialist doctrine, on the other hand, was to have labour fully represented in decision-making about the economy, so that it could contend on equal terms with the representatives of capital (Gladdish, 1991: 35).

<sup>540</sup> The first intervention measure was announced in August 1930: a compensation was granted for imports made by Dutch sugar industrials. Many more measures followed between 1930 and 1932, such as the *Wheatlaw* (1931)

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and the Crisis Dairy Law (1932). For the first time in the existence of the Dutch unitary State – and reminiscent of the corporatist order of the Republic – the administration of laws was delegated to non-State agencies: the farmer associations (Smits, 1996 : 101). In 1933 all crisis regulations were integrated in a comprehensive law, which gave government the right to designate agricultural products as crisis-products, and regulate prices and production without much parliamentary meddling. The by State regulation guaranteed agricultural prices (on wheat, butter, cheese...) were substantially higher than the world market prices, that had tumbled throughout the years of depression (Van Zanden and Griffiths, 1989 : 73-86). In case of export, differences with the world market prices were bridged by subsidies. The financing of these regulations and subsidies mainly came from three sources: levies on the import of agricultural produce, state revenues, and consumers, who had to pay for the higher food prices with a decline of their spending power. The amounts that the State had to pay were especially high between 1933 and 1936: more than 200 million guilder per annum on a total agrarian income of about 450 millions and a state budget of less than 1 billion guilder.

<sup>541</sup> Except on matters relating to education and to the Government's agricultural extension service.

<sup>542</sup> The "Landbouwschap" came into being by Royal decree. Membership in the Landbouwschap is compulsory for all those engaged in agriculture, whether they belong to one of the six private agricultural unions or not. As a body for the promotion of the general interests of farming business, the Landbouwschap had autonomous legislative authority regarding the

- a) promotion of animal health, quality of agricultural produce
- b) regulation of production, storage and land cultivation
- c) internal distribution
- d) rationalisation and normalisation
- e) conditions of employment for agricultural workers.

<sup>543</sup> Compared to England, the structure of income inequality in the Netherlands after WWII can be explained much less by regional variations. Remarkably, differentiating between incomes on the basis of region/province of residence would account only for 2 to 3 % of the variation in the Netherlands. On the other hand, income inequality figures within the different Dutch provinces are relatively similar to those found within the English regions (cfr. Somermeijer, 1965: 101).

<sup>544</sup> For instance, in 1920 Minister Aalberse introduced a new premium subsidy for private for-profit providers in order to stimulate for-profit housing investments. In 1921, he also ended the rent-freeze Act and in 1925, municipalities were even prohibited from providing financial contributions for social rental dwellings. As a consequence, the share of social rental dwellings in the total building programme decreased from almost 87 percent in 1920 to 15 percent in 1927. By 1927, the housing stock was thought to be large enough for the remaining temporary financial and regulatory measures to be abolished. However, the booming private housing market soon revealed its downside when overinvestment in middle-class dwellings in the cities led to vacancy. Meanwhile, the housing associations had become almost completely marginalised. Between 1925 and 1940, their share in the total housing construction was not more than 10 percent. In 1936, the Cabinet abolished individual housing allowances, which had been meant to provide temporary support for unemployed tenants in paying their rents, in order to encourage for-profit landlords to lower their rents. This measure only worsened the conditions in the lower segments of the housing market, however, since it stimulated demand for cheaper dwellings which could not be met by the private market (Gerrichhauzen, 1990; Helderma, 2007).

<sup>545</sup> The government's annual building quotas and programmes developed into the most important instrument for national housing policy, a development that was accompanied with the subsequent growth of the Ministry of Reconstruction and Housing.

<sup>546</sup> Publiekrechtelijke bedrijfsorganen (PBO's)

<sup>547</sup> Immediately after the war in 1946, an advisory report was published which confirmed that housing policy was too important to be left to the vagaries of the market. Recommendations included a long list of structural measures needed to regulate and stabilize the housing market (Commissie Plate, 1946, "Towards new housing politics").

<sup>548</sup> This led to the temporary establishment of such a Ministry in 1935. However, the tide changed again in 1937, when, in face of international turbulence and the imminence of a second world war, the Ministry of Economic Affairs took charge of agricultural affairs.

<sup>549</sup> For instance, a 1952 manifesto of the People's Party for Freedom and Democracy read: "In matters of agricultural policy the guideline should be the conviction that the existence of a vigorous, autonomous agricultural sector is of great importance to the the soundness of national life" (VVD, 1952: 31).

<sup>550</sup> Landbouwschap

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<sup>551</sup> The difference with the authority of the English organised agriculture is revealing. While in England, the National Farmers' Union also enjoyed a close relationship with the Government, the Union is not pressing its case in Parliament, nor are there quasi-official parliamentary spokesmen for the Union.

<sup>552</sup> Other causes of this second "green revolution" were the growth of cattle farming, horticulture and finishing companies (mostly pigs and chickens). In addition to this growth of production, the number of companies in arable and cattle farming was almost halved in the period 1950 and 1974, while in horticulture the decrease was "limited" to 30 percent. The agrarian labour force decreased even more, mainly through a reduction of the number of wage labourers and helping family members. The mobility of this labour force to other economic sectors peaked in the 1960's.

<sup>553</sup> At the basis of the European Common Agricultural Policy laid the twin fears that Europe might become too dependent on food imports from abroad, and that agricultural productivity might not keep pace with population growth. The main goals of the Common Agricultural Policy, as outlined in article 39 of the Treaty of Rome, were to increase agricultural productivity, to assure a reasonable standard of living for the agricultural population and to maintain reasonable consumer prices (Everts, 1985: 306).

<sup>554</sup> For instance, the Dutch Economic Competition Act, though a very mild law [in comparison with the US Sherman Act], has a substantial extraterritorial scope, with potentially as far-reaching consequences with regards to the protection of national interests in foreign trade as the Sherman Act. It may apply to conduct domestic and abroad by both Dutch and foreign firms; agreements which inhibit either Dutch exports or imports indeed are seen to infringe the public interest. In practice, however, the Dutch anti-trust law does not appear to have been applied to any other than Dutch nationals, and then only for activities in the Netherlands (Rahl, 1970 : 113-115).

<sup>555</sup> Dutch trade policy has either been couched in technical-neutral language, or been characterised by political strife without policy effects. In both cases an « inner circle » of Regents has been able historically to monopolise the process, either by default of strife or because of the lack of an organised alternative during the rare episodes of political strife (De Boo, 1989: 149).

<sup>556</sup> Economically, the EEC rested on a Franco-German "entente" which opened French markets to German industry in exchange for Germany subsidies to French agriculture.

<sup>557</sup> Ordoliberal's opposition to the reconstruction of the welfare state continued in the 1950s, albeit unsuccessfully (cfr. Abels hauser 1997; Hockerts 1980: 377-394).

<sup>558</sup> The so-called "a-political" politics of productivity emerged first in the Progressive Era and the War Production Board of 1918. It was then championed by Herbert Hoover under the form of a "business associationism" that would bring about impartial efficiency and eliminate wasteful competition (Hawley, 1973, 1974). It provided the basis for the New Deal settlement. Through the politics of productivity elites sought to transform political conflicts between East Coast promoters of financial and economic liberalism and Midwest proponents of domestic industry into problems of output and impartial efficiency. This, it was hoped would mean that rivaling groups would adjourn class conflict for a consensus on national growth (Maier, 1977: 607, 613).

<sup>559</sup> It is significant that the European Community is the product of Catholic Europe. The states that originally formed the Community, and that even today form the majority of the members, are states whose predominant religion and whose predominant spirit of organisation came out of Catholicism, at least partially reflecting the same spirit that sought to unify European Christendom from the late Roman Empire or the early Middle Ages onward. The European Community reflected a certain school in this Catholic or post-Catholic world, closer in theory to that of Montesquieu and de Tocqueville than to that of the Bourbons or the Jacobins, but it came out of a civilization that had long sought unity on a hierarchical basis and, through France and Spain, was primarily responsible for inventing the modern state. When one listens to Jacques Delors talking about Europe, one hears the voice of that spirit. The predominantly Protestant nations of Europe, for the most part, did not at first join in the European Community. Denmark is an exception. The Netherlands, with a large Catholic-background population that may now be a majority, is something of an exception. ..The European Community, to the extent that it was founded by French-men – it was founded essentially by Jean Monnet and Konrad Adenauer of Germany – who came out of the Toquevillian tradition, was an answer to the Jacobins. But the leaders were themselves raised in the patterns of Jacobin thinking. In the end, it seems that they have been overwhelmed by their own culture to expect that a federal Europe means a strong central government in Brussels, a strong bureaucracy to effectuate the activities of that central government, and a hierarchical structure of power acquired from the Catholic Church modified by a Catholic concept, namely subsidiarity (Elazar, 1998: 133-134).

<sup>560</sup> Kartellamt

<sup>561</sup> As a co-author of the SDAP's Labour Plan of 1935, Tinbergen was commissioned to create the first draft of the Central Planning Bureau in the years 1945-1946. Based on Tinbergen's recommendations, the Bureau produced "objective forecasts" as the basis on which policies could be settled unanimously by all parties. Since it was not possible for politicians to monitor all statistical extrapolations, this Bureau slowly but surely acquired

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authority as a body of governing experts. All the more so when, by the late 1950's it became clear that the policies implemented on the basis of technocratic policy, had allowed the Netherlands to achieve a very healthy competitive position (Gladdish, 1991: 40).

<sup>562</sup> In other words, the proliferation of veto points institutionalized Germany's *Verhandlungsdemokratie*. It thus imposed very effective restraints on the unrestricted effects of political competition and partisan politics and on the sovereign powers of an elected government. At the same time, however, the restoration of the German welfare state along traditional corporatist lines insured that the ordoliberal order would not result in the free rule of the market, but would instead work through the organized interests of capital and labor offering them multiple opportunities for long-term coordination (Manow, 1999).

<sup>563</sup> The *Rotterdamsche Bank* eventually did follow the lead of its competitors, but with a severe time lag; it only started offering personal loans from 1963 onwards. Probably because the bank owned a specialised savings since 1931, it did not show much interest for savings products either. Finally, due to its misfortune with credit services in the 1920s, the bank was less accommodating in providing credits too. As a result, between 1960 and 1963, the *Rotterdamsche Bank's* earning capacity decreased from 11.4 to 7.2 %.

<sup>564</sup> Clearly, the 1929 international financial crisis did not leave the Dutch agricultural sector unaffected. From 1930 a downward trend in the amount of savings deposited at the Co-operative Banks became noticeable. In 1931 the same happened to the amount of credit loans. The measures taken by the government to redress the agricultural depression from 1933 were insufficient. Because of the increasing influence of protectionist regulations on international markets, Dutch agricultural export stagnated. This period of stagnation lasted for ten years. Nevertheless, most Co-operative Banks weathered the storm without much difficulty, thanks to their historically conservative credit policies.

<sup>565</sup> He further expected credit co-operatives to limit the negative side-effects of agricultural price cartels.

<sup>566</sup> In the first post-WWII decades, Dutch commercial banks derived the bulk of their resources from deposits. For the thirty-three commercial banks, capital and reserves at the end of 1959 amounted to about 12 per cent of the balance sheet total (for the Big Four 6.9 per cent), and deposits to 78.7 per cent (for the Big Four 81.9 per cent). Time deposits, including savings deposits, accounted for 37.2 per cent of total deposits (for the Big four 33.4 per cent), so that the greater part of total deposits derive from customers' current accounts are repayable on demand. Savings deposits amounted to 16.4 per cent of total time deposits and balances held by customers in foreign currencies to 10 per cent of total customers' deposits (excluding time deposits). From the banks' point of view, the main disadvantage of the time deposit is the added cost of the interest payment which competition for deposits may force up to a high level and it is known that big borrowing customers (which unlike the smaller firms tend to use more than one banker) are inclined to play one bank off against another in seeking higher rates of interest on deposits fixed by special arrangements. Furthermore, it must be remembered that the Dutch banks traditionally pay a low rate of interest on demand deposits in order to compete with the giro transfer systems (which pay no interest on demand deposits) and, in the smaller towns, with the agricultural credit banks. They make no charge for keeping current accounts so long as these remain in credit (Wilson, 1962: 205).

<sup>567</sup> For once, the *Rotterdamsche Bank* was the pioneer in this regard. The first really rapid expansion of branches took place in the decade following the Second World War, when the larger banks in Rotterdam and Amsterdam began buying up small provincial institutions that they later converted into branches of their own. In addition, these city banks opened many offices *de novo* (Wilson, 1962: 202-207).

<sup>568</sup> In the mid-1950s, 39% of all farmers opined that cooperatives were more profitable, 10 % that they rendered a better service, and 56% that they were more reliable than their non-co-operative counterparts (Abma, 1956: 49-50).

<sup>569</sup> Indeed, the culture of the Catholic Co-operative banks in comparison remained one of somewhat narrow-minded economy; their motto still was "in isolation lies our strength", and "he who is not a farmer and well known, we distrust, and how many times justifiably" (De Vries, 1973: 14).

<sup>570</sup> Also, during WWII, the agricultural sector suffered less than other sectors from the impact of the war : farmers profited from the high agricultural prices and the growth of the black market. As a result, the savings balance and marketshare of the Co-operative Banks increased rapidly.

<sup>571</sup> Undoubtedly, social-democrats' increasing support helped Co-operative banks expand in the West. The Social-democrats had been traditionally weak in the provinces of Utrecht, Limburg and North-Brabant, the mainstays of the Co-operative Banks. But they traditionally were strong in the Holland provinces, Drenthe, Groningen and Friesland, where Co-operative banks were weaker.

<sup>572</sup> Regional Policy had not been included as a formal topic in the Treaty of Rome (1957). The assumption was that regional policy was the responsibility of Member States, and that economic integration would automatically eliminate problems, anyway. There was also a reluctance to impose regional policy, to avoid the criticism that competition rules were circumvented from the beginning. Yet, Robert Schumann from the beginning had argued:

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“The regional repercussions of the common market will be its true test”. Only in 1965, when it became clear that economic integration was not that automatic after all, did the EEC avow to the aim of a regional policy - the First Commission Communication on Regional Policy was presented in that year.

<sup>573</sup> In 1934, the housing market collapsed and in 1935-36, construction decreased by 40 percent. In order to maintain private investment levels, the Cabinet decided to lower the capital costs by means of a general interest rate conversions. These measures unintentionally worsened the housing market crisis (Bakker Schut, 1935; Glasz, 1935).

<sup>574</sup> By means of so-called “bricks-and-mortar subsidies” the government endeavoured to bring rents below cost price in the first decade after WWII.

<sup>575</sup> The Committee came out firmly in favour of re-establishing the housing associations as the ‘preferred provider’ of social rental dwellings and advised the Cabinet to abolish the Refund Decree, which had been the cause of the crisis among housing. Immediately after the Second World War, the Netherlands had to face immense housing (Helderman, 2007).

shortages, worse than those in most other European countries.

<sup>576</sup> The Liberal-Protestant Central, on the other hand, already in July 1940 registered a surplus of 4.5 million guilder, while the Catholic Central registered a positive balance of 1 million guilder in August of the same year. From that moment on, the ascending trend amongst Co-operative Banks did not stop anymore. So, the credits on deposit books at Co-operative Banks already in 1942 exceeded the corresponding amounts at both the Postal Office Bank and the General Savings Banks. Some more figures are further proof of the differentiating position of the Co-operative Banks during WWII. The number of deposit books opened at local banks affiliated to the Catholic Central increased from 166,669 per ultimo 1940 to 333,686 at the end of 1945. The average amount of money deposited also rose sharply, from 738 guilder in 1940 to 1,830 guilder in 1945. By way of comparison, the average amount deposited at the Postal Office Bank totaled 221 guilder in 1940 and 556 guilder in 1945. The corresponding figures at the General Savings Banks are 327 and 580 guilder; at the combined Co-operative Banks (affiliated to Utrecht and Eindhoven) 771 and 1,714 guilder. Noteworthy is that the highest average balance per deposit book in 1945 was registered at the Co-operative Banks affiliated to Eindhoven (1,830 guilder). Finally, credit services at Utrecht local banks got going again in 1945, while for local banks affiliated to Eindhoven this lasted till 1946. Yet, some Co-operative Banks faced serious financial problems, which caused the Centrals to tighten control measures to avoid any more financial problems. During these depression years, the Co-operative Banks had to take up some of the new tasks in the system of agrarian protection initiated by the government. So, the local banks took charge of paying out the vast numbers of subsidies that government had promised specific groups of farmers. As such, the Co-operative Banks played a role of intermediary between the State and the population of farmers. To accommodate the increased working load, both Central headquarters were expanded. More importantly, the role of intermediary between the State and farmers entailed more intensive contact between both Centrals and between all local banks.

<sup>577</sup> Nationale Spaarraad

<sup>578</sup> Interview with Herman Wijffels, October 2004. Obviously, the fact that the income inequality between City and outer provinces had been leveled to a great extent during WWII, facilitated the integration of Co-operative Bankers in the financial establishment somewhat.

<sup>579</sup> Centrale Ringvergadering Utrecht, November 9th 1945.

<sup>580</sup> The money that was handed in had to be deposited in separate, blocked accounts. Most of this money had to stay blocked on these accounts, at least for a few months. This led to a substantial increase of transfers from one blocked account to another by giro. Though the increase of the number of savings accounts at local banks affiliated to Eindhoven from 1944 to 1945 with 50 percent already was phenomenal, the increase at local banks affiliated to Utrecht even attained 70 percent.

<sup>581</sup> After WWII, the Catholic Co-operative Banks caught up with their protestant-neutral counterparts: while the latter in 1948 held credit saldi 3.96 times bigger, this differential had decreased to 1.76 in 1958, a normal figure given the difference in territorial size covered by the two types of banks (Van Campen, 1959: 22).

<sup>582</sup> This last measure made it possible for financiers to lend up to 90 percent of the building costs, instead of 65 to 70%.

<sup>583</sup> The Committee came out firmly in favour of re-establishing the housing associations as the ‘preferred provider’ of social rental dwellings and advised the Cabinet to abolish the Refund Decree, which had been the cause of the crisis among housing. Immediately after the Second World War, the Netherlands had to face immense housing (Helderman, 2007).

shortages, worse than those in most other European countries.

<sup>584</sup> The unprecedented waves of amalgamation and centralisation in the pre-WWI and post-WWII period notwithstanding, by 1960 there still were thirty truly independent provincial banks in the country. Thirty was an

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inordinately large number compared to the vastly bigger England – testifying to the continued existence of comparatively strong local particularisms in the Netherlands.

<sup>585</sup> Directors of the Cooperatieve Centrale RAiffeisen Bank, Utrecht, Mei 1938 (cited in Balen, 1938: V).

<sup>586</sup> As distinct from individualism, personalism implies a certain solidarist conception of the individual's responsibility to and for the society around him. Instead of collectivism, personalism is linked with a form of pluralism that allows for the voluntary grouping of different "spiritual" families in for instance a corporative structure. With regards to labour, the doctrine of personalism holds that it is not a commodity, but a moral achievement by an "individual with reason, responsibility, and potentially infinite value" (Fogarty, 1957 : 28-29)

<sup>587</sup> Small business, financed without external capitalisation, predominated Dutch industry until the 1970s. Small business was politically influential because it belonged to the core constituency of the powerful religious parties (Van Waarden, 1992b : 156). As these parties were keen on promoting and preserving the virtues of core communities in business, be it the family or the local association, they did everything they could to prevent cycles of self-destructive mutual competition. Until the 1960s a prudent and conservative financial policy was dominant in the Netherlands. External financing was very limited. Internal financing of investments was even emphatically promoted by the Dutch government during the fifties. As such, more than 70 percent of industrial investments in the postwar period could be financed through internal capitalisation (Van Zanden and Griffiths, 1989 : 217).

<sup>588</sup> One of the ideologically moot points was that efficient farming in the eyes of the Agricultural Board also entailed a reorganisation of smaller family businesses. This point had been advanced by a State Committee dominated by Free Liberals as early as 1936 (Commissie van advies dienst kleine boerenbedrijven, 1936). Yet, the Catholics maintained the importance of the family as the binding agent of a prospering agricultural community. Though at first reluctant to agree, the KNBTB in the 1960's faced the changing realities in the agricultural development. The Catholic Farmer Union (KNBTB) now substituted family businesses that both intensified and reorganised their activities for marginal farms as the model of catholic farming.

<sup>589</sup> Up to the 1960s, mortgage banks sometimes received requests from their customers to send them blanco envelopes mentioning only an address, so as to hide the fact that their property had been mortgaged (Janssens, 1992: 22-24).

<sup>590</sup> The relation between the Ondernemersraad and the government worsened considerably in the post-WWII years on account of the latter's New Guinea policy. New Guinea was still economically as worthless as it was before the Second World War but the stubbornness with which the Netherlands held on to the island now threatened the interests of Dutch entrepreneurs in Indonesia. The Dutch government knew of course that the entrepreneurs didn't agree with its New Guinea policy but it took that for granted. The group Rijkens (named after the President-Director of Unilever, P Rijkens), of which Van Oldenborgh and some other members of the executive of the Ondernemersraad were members, was equally unable to change the mind of the Minister of Foreign Affairs, JMAH Luns, and some other members of the cabinet (Taselaar, 1998).

<sup>591</sup> This was a remarkable reversal of the pre-WWII socialist doctrine that saving was detrimental to the working classes, as it was part of the capitalist doctrine.

<sup>592</sup> The social-democratic party (PvdA) from the end of the 1950s increasingly maintained links with the agricultural Co-operatives, the Catholic Co-operative Bank in particular.

The Social-democrats had been traditionally weak in the provinces of Utrecht, Limburg and North-Brabant, the mainstays of the Co-operative Banks. On the other hand, they traditionally were strong in the Holland provinces, Drenthe, Groningen and Friesland.

All this gave the farmer unions and co-operative banks – especially the Catholic ones – unprecedented access to centres of decision-making, both at the Dutch and European level.

<sup>593</sup> The different laws were : Besluit op de Winstbelasting (1940) and Besluit Vennootschapsbelasting (1941).

<sup>594</sup> Generally speaking, leaders from the Catholic Central Bank were much more politically active in agricultural interest group politics – both domestic and European – than the neutral Liberal-Protestant Central, which was keen not to irritate its target populations of both protestant-christians and liberals with overly value-rational claims. As a result the political skills of Eindhoven directors were much more developed. For instance, the Eindhoven director Van Campen actively co-operated with the government in bringing about a draft of the Credit Control Law, in contrast with directors of other banks, who were rather hostile to this law that affirmed the increasing role of the Dutch Bank in supervising the banking sector. One of the reasons why Van Campen was happy with this law, was that, from then on, Co-operative Banks together with savings banks would enjoy the same supervision, and indirectly legitimacy, as Commercial banks. This provided further proof of the success of Co-operative Banks.

<sup>595</sup> The difference with the authority of the English organised agriculture is revealing. While in England, the National Farmers' Union also enjoyed a close relationship with the Government, the Union is not pressing its case in Parliament, nor are there quasi-official parliamentary spokesmen for the Union.

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<sup>596</sup> The Law of May 4, 1950, Stb. K 174;

The organisational evolution of Co-operative banking after the foundation of the two Centrals basically entailed two elements: integration and a broadening of the field of activity. The institution of the two Centrals obviously was a first sign of the integration tendency. At first, the main responsibility of the Centrals consisted in maintaining a good liquidity position for the Co-operative credit system. Gradually, however, the Centrals induced more centralization in the sense of standardization of banking techniques, more stringent regulations and more extensive control of the management of local banks. For instance, ...To counterbalance the tendency of centralization, the Utrecht local banks organised themselves in so-called ring assemblies. Because the Liberal-Protestant Central was suspicious about these forms of interlocal consultation, it lasted until 1921 for the Central to officially recognise the ring assembly representatives as discussion partners. To reinforce the communication between the local representatives and the Central Bank directors, a "central ring assembly" was established. Though similar attempts of inter-local consultation were also attempted by Eindhoven local banks, it is telling that the Catholic Central Bank systematically blocked these attempts of co-decision making until 1969, with the institution of a central ring assembly (De Boer, 2003: 14).

<sup>597</sup> Another reason being that private prices were now usually as fair as those of cooperatives.

## 9 ENGLISH FINANCIAL INSTITUTIONS (1930-‘68)

### 9.1 Changing geopolitical opportunity structure (phase 1)

#### *a) The unintentional consequences of monetary nationalism*

The 1930s and 1940s brought to surface several contradictions between geopolitical and domestic dynamics, again opening opportunities for two types of nation-building: a provincial and industrial nation, and an imperial, financial nation. Following the world slump of 1929-1931, popular opinion became much more conscious of monetary problems. An outbreak of monetary nationalism ensued, resulting in widespread support for the subjection of central bankers to greater government control (Sayers, 1952). Chartalism, i.e. the German doctrine of “real” money – authorised by a declaratory fiat of the government and invested in productive domestic forces, appeared to gain legitimacy as a policy principle. Still, there was the issue that, since the nineteenth century, Britain had accepted the role of the world’s banker and the obligations it entailed to maintain large reserves for the settlement of debts in order to secure the stability of sterling. The long held habit of world banker did not fit well in a chartalist picture; the former had been too deeply ingrained in the British imperial psyche. In addition, the balance of interest group politics in Britain was unique: no other country at the time had such a small agricultural industry, and so many national interests living off international remittances, loans, shipping, etc... Even the United States, Germany, and Sweden had fewer foreign investments; and they did not manage a reserve currency. This, together with British labour’s love story with “cheap loaf”, made the case of interest groups in favour of domestic protectionism – most notably the metal producers of Birmingham and grain farmers – comparatively weak (Aldcroft and Richardson, 1969; Gourevitch, 1984: 121).

England would not be the core part of Britain, if by a “fit of absence of mind” the world finance crisis did not lead to unanticipated consequences. First and foremost, chartalist policies and the direct involvement of the government in economic and financial matters during the 1940s worked in favour of financial institutions and businesses located in London, and against those in previously important financial and commercial centres like Liverpool and Glasgow. Many provincially based businesses had become large nationalised industries run from London, and dependent on London’s financial and commercial markets and services. They were followed by the private sector where large public companies absorbed numerous local concerns through mergers and acquisitions. All this induced an enormous switch of fund-raising activities to the City. As a consequence, the City of London in the 1950s acquired a prominence within the British economy that it had never previously possessed, largely courtesy of the government. There is no evidence that this outcome was consciously intended by any party, however (Michie, 2004: 41).<sup>598</sup>

A second unanticipated consequence of the world slump of 1929-1931 was the unostentatious and relatively undeliberate coming into being of the sterling area in the Commonwealth and the further transformation of the British world-state into an imperial state. In the 1930s, the last cosmopolitan remnants of Britain’s free trade approach were formally replaced by a system of imperial preferences that limited free trade to the colonies and other countries within an emerging sterling bloc. On the outbreak of WWII, sterling convertibility was suspended. Free movement of goods and payments was confined to the so-called sterling area.<sup>599</sup> Britain’s agreement at Bretton Woods in 1944 to move towards

convertibility<sup>600</sup>, meant that after WWII « world-state » considerations again would dictate foreign policy. Foreign policy would now have to be aligned much more with US policy, however.<sup>601</sup> As the US was Britain's principal creditor, the British government was eager to act as a good ally in return for pledges of a predictable Federal monetary policy and a lack of interference with sterling-based arrangements for trade and payments. Thus, after WWII British empire and prosperity was framed increasingly on a discriminatory proposition whose viability depended needed US toleration, dollar underwriting and strategic protection.

***b) Continuity between the Pax Britannica and Pax Americana?***

What the British government underestimated was that much more than for 19th century Britain, for the US foreign policy was the shield of its republican traditions (Lippmann, 1943), and the key to its long held ambition of spreading itself around the world as an « Empire of Liberty » (Foner, 1998 : 77; Tucker and Hendrickson, 1990). US leaders saw foreign policy not only as a means to expand the frontier of economic opportunity beyond its domestic borders, but also as a way to promote traditions of « Americanisation ». For instance, the US European Recovery Program was launched to put a brake on nationalisation programmes in Europe, most notably the UK Labour government's nationalisation plans – one of the main reasons it had been elected (Harris, 1949). The Program was also intended as a weapon against the spread of Communism after WWII. Thus, the British empire was propped up temporarily to serve the US « democratic cause » of saving capitalist countries from communist annexation. Of course, the more US aid was required in competing with the communist Sino-Soviet bloc for nationalist good will, the more British imperial areas came under US influence. With competition for third world influence heightening between the dollar and the rouble blocs, the Suez crisis in the late 1950s provided the turning point needed for a legitimate extension of US foreign policy aims. In the early 1960s, president Kennedy finally substituted an overarching vision of the « New Frontier » - an expanding commercial world republic based on national invitation – for the declining safety of « Old » Europe's sway in imperial matters (Louis and Robinson, 1994: 463, 492-495).

There were huge differences between the British imperial tradition, which was accommodating and of a « broad church » type, and US « Empire of Liberty » traditions, which entailed assimilation through the spread of business education, and the association of democratic capitalism exclusively with US traditions. The US traditions in questions were « Real Whig voluntarism », i.e. the Christian belief in industry, sobriety and self-discipline, « happy mediocrity »<sup>602</sup>, i.e. the belief in middle class individualism, egalitarianism and consumerism as a way to reconcile social class or religious differences in the name of national unity, and « pluralism » - a belief in the superior democratic capacities of the market and civil society. I shall expound on these traditions to a greater extent in chapters 10 and 11. Suffice to point out here the workings of one of these traditions, « happy mediocrity ». British governments, in particular Conservative ones, underestimated the domestic and geopolitical effects of this US tradition. Domestically, it undermined the very basis of all Tory traditions of democratisation, namely the organic integration of different classes and ranks in one functional Commonwealth. Instead, the spread of happy mediocrity gradually did away with the legitimacy of ranks, and gave way to the very un-British idea that all were equal. In more realist geopolitical terms, happy mediocrity translated in an absolute aversion for « communism » - the Soviet equivalent of happy mediocrity – and the branding of the Old Continent's colonialism and socialist

tendencies as corrupt. More importantly, it implied a limit on British and European competitiveness. To help counter the threat of communism and compensate for the loss of empire, the US Congress had voted in favour of its government's plans to support European economic recovery, on the unspoken condition that European competitiveness would not become a threat to US competitiveness. Voluntary bi-lateral agreements with indebted and militarily dependent European countries – as well as Japan – would guarantee this.

A large part of the British political class does not seem to have understood that the United States was not the British heir of a liberal international order after all – in so far as such an order had existed at all (see chapter 11). In particular, too many of the governing classes glossed over a glaring difference: the much more pronounced moral absolutism underlying the US' Empire of Liberty discourse and its « good against evil » divide. They probably did not notice this difference because US government officials' apparent predilections were their main reference point. Having to cope with a much more pronounced anti-Statist legacy, US government officials in actual reality were forced to go beyond the Realpolitik aims they shared with their European counterparts, and draw on the normative discourse that resonated most in popular opinion, namely evangelical opinion.

#### ***c) The religious factor***

Evangelicalism was fast becoming a political force to reckon with in the US, due to its importance in the movement of American suburbanisation<sup>603</sup> (Hudnet-Beumler, 1994), and its leaders' realisation since the Great Depression that they had to engage with national popular opinion to avoid another such catastrophe, and avert the threat of communism. The religious right accepted to trade its support to the Cold War State in return for a different system of public-private relations between the welfare system, foreign policy and American Constitutional notions of liberty. The new public-private relations sanctioned by evangelicals were based on first the principle of "subsidiarity", entailing limited growth of governmental agencies, and second fiscal and funding support for private and non-governmental agencies that spread "good" American values. Thus, starting from the end of WWII, the US federal government broadened its use of religious agencies in its pursuit of the expansion of higher education, defense-related research, hospital building, community development, and foreign aid (Schafer, 2006: 13-14, 17-18).

The marriage of evangelical and geopolitical aims in the US since WWII had further reaching consequences for American notions of liberty than often allowed. Not only did the principle of subsidiarity and the above funding and taxation innovations serve to escape the Constitution's checks on religious interference in politics. The very link between the constitutional order and christian virtues was explicitly renewed in the post-WWII period, most notably when the words "under God" were added to the constitutional Pledge of Allegiance. While this addition might have disturbed the constitutional separation of church and state dynamics, it had the effect of improving the "anti-communist spirituality" of the American constitution (Miller, 1964: 41). In the words of president Eisenhower, "when God comes in, communism has to go." (Pierard and Lindner, 1988: 197). In sum, maybe the natures of the Pax Americana and Pax Britannica differed more than many members of the British political class wanted to believe.<sup>604</sup>

#### ***d) The restoration of the City***

Religion obviously was only part of the geopolitical story. It also consisted of a monetary strategy, and this was probably the main cause of confusion between the American and British empires. In monetary terms, president Wilson and the Federal

Reserve Bank supported the internationalisation of private finance, a message that resonated with London-based financiers. Contrary to British strategy which was focused more on exporting capital than on encouraging domestic investment, the US strategy was to combine domestic industrial expansion with the international expansion of finance and commerce.<sup>605</sup> For such a policy would allow the US to continue on a self-centred expansionary course without having to fear external constraints on domestic policy.<sup>606</sup> Meanwhile, the British government was trying to persuade the sterling Commonwealth to settle for economic austerity, as this was the only way to keep member countries from drawing heavily on their balances and destabilising the sterling area. Closer monetary cooperation with European governments, for its part, at first was excluded.<sup>607</sup> During the 1950s, the colonies became less important for the accumulation of sterling balances and the saving of dollars. At the same time, external and internal pressures for independence further destabilised the sterling area. After the Suez crisis in 1957, Britain finally decided to move towards European convertibility.

All this led to a third unanticipated consequence: the gradual restoration of London as a cosmopolitan centre of finance from the late 1950s, most notably through the development of the Eurodollar market (Krozewski, 1996: 48). Arguably, the reemergence of London as an international centre was not entirely unplanned. After all, Harold Wilson since 1951 had endeavoured to make the City of London more open to overseas banks than any other financial centre in the world (Miller, 1974: 271-272 ; Strange, 1971: 64 ; Strange, 1986).<sup>608</sup> Nevertheless, the emergence of a Eurodollar market in London was entirely unplanned. It occurred as American banks sought to avoid stringent controls at home, and as the English tradition of voluntary self-restraint meant that there was very little formal regulation for overseas banks.

US Clearing banks eagerly took advantage of this opportunity to expand in London, by opening foreign subsidiaries and affiliates in investment banking activities – domestically forbidden under the Glass-Steagall Act. North-American authorities largely tolerated, if not actively supported this strategy. In particular, the Federal Reserve Bank, to which the US legal framework on banks' foreign activities left large discretionary leeway, espoused a very permissive approach. Foreign expansion was encouraged as a means to support the financing of US direct investments in Europe and assist US multinationals' expansion abroad.<sup>609</sup> Thus, the US government and the Federal Reserve Bank did not subject the activities of US bank' foreign branches to capital controls, and offshore dollar loans were exempted from the voluntary credit restraint programme (Battilossi, 2002: 15-17).

## **9.2 First strategic interactions (phase 2)**

### *i) Conservative Party*

In many ways, the adoption of chartalist policies would have served that part of the Conservative Party which favoured protectionism hand and foot.<sup>610</sup> But then again, the leadership of the Conservative Party – and of the Labour Party – was in the hands of those who opposed any fundamental changes in Britain's internationalist economic policy.<sup>611</sup>

Instead of chartalist policies, the Conservative government supported policies of financial "rationalisation". In practice, this led to the perpetuation of trade restraints, mainly with an eye on retaining the confidence of the middle classes and family

enterprises. In the 1930s, a Parliament dominated by the Conservative Party even enacted legislation explicitly promoting cartelisation, or business 'self-government' under official supervision. For instance, the Finance Act of 1935 granted cartelized industries clear tax advantages (Freyer, 1992: 214-215).<sup>612</sup>

While cherishing continuity, the Conservative leadership was keen to dispel the reactionary label foisted on it by their Labour opponents during the 1920s and 1930s. Labour had successfully reinvented Conservative history by depicting the latter party as a ruthless defender of laissez-faire, a party refusing to enroll State authority in the battle against poverty and unemployment. After WWII the otherwise very popular Churchill and his Conservative MPs were not re-elected in government; they had underestimated the desire of the English people to create a "new Jerusalem" out of the rubble of war (Jefferys, 1997). All this led to an emergence of a generation of Conservative leaders who were conscious that their party would not recover its working class support unless it addressed itself to the social conditions of the depressed industrial areas. In other words, MPs such as Anthony Eden, Harold Macmillan and Robert Boothby, sought a revival of Disraeli's "one nation politics", but this time based upon more government planning (Macmillan, 1938, 1966; MacMillan et al., 1927). When the Conservative Party came to power in 1951, its leaders Anthony Eden and Winston Churchill followed the electoral imperative of maintaining the allegiance of important groups of voters who benefited from the social reforms put in place between 1945 and 1951. This does not mean that Conservatives enthusiastically subscribed to any notion of state socialism; at most some leaders confessed to a form of "paternal socialism".<sup>613</sup> Most Conservatives rejected the use of the state as an agency of overly egalitarian strategies in social policy; they wished to safeguard private enterprise and the existing social and economic hierarchy as much as possible. To counter exaggerated State demands, Conservatives promoted the usual "service to the country, responsibility and moral integrity". But they did much more. Leaders such as MacMillan tried to revive a form of "one nation politics" by turning Britain into a "property-owning democracy"<sup>614</sup> and making "every man a capitalist".<sup>615</sup> Home ownership<sup>616</sup> was to be the cornerstone of this policy. The aim of Conservatives was to spread wealth creation rather than redistribute wealth. This implied amongst other that economic growth would be prioritised, even at the expense of growing inflation, eventually leading to the infamous "stop-go" patterns of growth and regulation in the 1950s and 1960s (Martin, 1988: 407).<sup>617</sup>

Finally, the Party, in alliance with civic organisations such as the People's League for the Defence of Freedom and the Middle Class Alliance, committed publicly to the anti-communist and pro-family measures enshrined in US policy.<sup>618</sup> This commitment transpired in calls to « set the people free » from socialist controls, and achieve greater national unity in face of the Cold War (Butler, 1963: 3-7; Jones, 1996: 242-243).<sup>619</sup>

It would be a mistake to depict Conservative policy after WWII as completely aligned with US policy. In fact, the dominance of Labour immediately after the war and the growing influence of US-style middle class consumerism had caused a "moral panic" amongst many Conservatives. Clearly, the Conservative motto "set the people free" did not entail that individualism and diversity would be allowed to breakdown traditional authority (Francis, 1996: 67- 70).<sup>620</sup> The middle way between English and US traditions of democratisation for Conservatives was to foster a form of Britishness which could be used both to attack Labour on the ground of anti-patriotism<sup>621</sup> and to keep US-influences sufficiently at bay. Most notably, the initiative to found the BBC as a bulwark of voluntary restraint and "secular Anglicanism" allowed the Conservative Party to convey its

particular interpretation of the “nation” through the media (cf. Nicholas, 1996: 128, 131-135).<sup>622</sup>

## ii) *Labour Party*

After WWII, the Labour Party finally had the opportunity to do something about the old grievance – expressed most vociferously by the trade unionist Bevin – that the domestic consequences of monetary policy came a poor fourth in the Bank of England's eyes, behind the defence of sterling, adherence to the gold standard and the position of London as an international financial centre (Kynaston, 2000: 197-198). Despite Labour's official predilection for more chartalist control, and the enormous opportunities that presented themselves directly after WWII, the nationalisation of the Bank of England remained a technical and symbolic exercise. The Bank retained control of the Bank rate, and the rest of the financial sector remained virtually untouched. As such, postwar Labour missed the opportunity to take control over the domestic flows of capital within the financial sector (Hall, 1987: 283)<sup>623</sup>.

The more general point is that Labour's ineffective wielding of the threat of nationalisation induced the very lack of formal regulation that opened up a foreign exchange market beyond the control of any English authority. Fear of nationalisation had confirmed the resolve of London bankers, the Bank of England and the Treasury to eschew formal regulation of any kind, as this could be seized upon as proof of sectional favouritism and the need of nationalisation in the public interest.<sup>624</sup>

Also, Labour's development of the centralised welfare state and various nationalisation projects<sup>625</sup> accelerated dynamics of bureaucratic centralisation in London. This undermined one of Labour's strongholds of chartalist policy since WWI, the local authorities.<sup>626</sup> Local authorities steadily decreased in importance, to the point of being reduced to a role of “government's agents for the administration of education and the building of houses” in the 1950s<sup>627</sup> (Read, 1964: 240).

Finally, it is often claimed that, after WWII, British organised labour gave up much of its evolutionist theory and became more concerned about antitrust than its US counterpart (Freyer, 1992: 324-332).<sup>628</sup> Still, Labour supported Conservative measures of cartelisation and trade restraints in principle (Pollard, 1962). That is remarkable, given that the domestic political scene remained dominated by the “labour versus capital” question. Indeed, the ultimate aim of an important faction in the Party – which grew from a position of minority to leadership – was to abolish the capitalist system and replace it by socialism.<sup>629</sup> Against this faction, there was a very influential group in the Labour Party which was against collectivist doctrines of national economic planning. This group accepted the necessity for free consumer demand and tried to devise methods by which publicly owned enterprises – i.e. those without the desire for profit – would respond to it. The compromise between the two groups ultimately would be to focus nationalisation purposes only on a few industries of special public interest, such as utilities. Also, the public enterprises that were devised to run the nationalised entities were granted a considerable degree of autonomy from the State (Tivey, 1973: 24). The Conservatives agreed in principle, and the first steps towards nationalisation of utilities were taken as early as the 1930s, only to be interrupted by WWII.

The truth is that, in contrast with its highly ambitious party programmes, once in power Labour's leadership was highly deferential to the traditional national understandings of the global nature of British interests and objectives.<sup>630</sup> The commitment to full employment, growth and welfare was uneasily combined with the belief that Britain

should remain a world power, a “first class country” with extensive international interests and responsibilities.<sup>631</sup> This implied high levels of overseas spending, advocacy of an “independent deterrent” as a symbol of world power, the maintenance of the City as a leading international financial centre and the pound as a strong, global currency (Shaw, 1996: 214-215).<sup>632</sup> Rather belatedly, when Harold Wilson came to power in 1964, a Labour government did engage in a taxation spate, partly to deal with the emergence of two nations, a manufacturing nation in the North of England predominantly voting for Labour and a service nation in the South predominantly voting for the Conservatives (see Appendix O for historical voting figures per region). A Selective Employment Tax was introduced, partly as a revenue-raising device, partly to deflect labour from service industries to manufacturing industries (Douglas, 1999: 134).<sup>633</sup>

With regards to influences of Americanisation, while Labour was in favour of strengthening the « North Atlantic Alliance »<sup>634</sup>, it was not immune to fears of « industrial materialism ». Nevertheless, it was the the Labour Party – not the Conservatives – that received most favourably ideas of business education. Starting in the late 1940s, Labour became quite keen on management education, seeing such training initiatives as an integral part of its overall strategy to improve industry’s productivity (Tiratsoo, 1998: 367). When Conservatives took over in 1951, they were not dismissive of business schools, just much more reluctant to intervene in industry: existing institutional arrangements were sacrosanct. This changed somewhat in the 1960s, both with the ascendance of Harold Wilson’s Labour Party, and the emerging consensus in England that there was a growth crisis. This caused a renewed concern with management education. Still, even at this peak point of interest, the government’s enthusiasm for change was not overwhelming. Ministers were quite willing to cede the FBI an important directing role in deciding how the new institutions should be organised and paid for (Tiratsoo, 1998: 368).<sup>635</sup>

### *iii) Liberal Party*

After the disastrous 1924 election, in which the Liberals’ leader Asquith’s decision to support a minority Labour government had polarised the political choice between Conservatives and Labour,<sup>636</sup> the Liberal Party was relegated to a distant third place position; the electorate increasingly opted for a straight choice between the other two parties. Unable to achieve any direct influence on government, despite their early support for Keynesian economics, the Party split again in the 1930s and continued to decline until the mid-1950s. By 1957 there only remained five Liberal MPs. Despite the political irrelevance of the party itself, its thought leaders Keynes and Beveridge did make a large impact on post-WWII government policy. Revival of the Liberals as a political party rather than just an intellectual force was announced in the second half of the 1950s, but not realised. The party was bogged down by organisational difficulties, resulting in yet another loss of votes and seats under Wilson’s 1964 Labour government.

### *iv) Co-operative Party*

Remarkably, while the Co-operative Party achieved very little in the interwar years<sup>637</sup>, its numerical and financial strength kept improving.<sup>638</sup> So, while membership of affiliated societies by 1929 amounted to less than 3 million, by 1930 it had jumped to 3.25 million and by 1935 it surpassed 4 million (Carberry, 1969: 35). Still, according to many the Co-operative movement remained “politically less powerful than if it was officially out of politics” (Longden, 1941: 513-514). The main reason for this failure to match economic power with political clout was that the Co-operative Party did not manage to define its role in relation to the Labour Party (its partner), and the Co-operative Union (its boss), in a very

compelling way, despite the win of several « Labour and Co-op » seats at each election. There was a dreadful lack of clarity as to the political philosophy of the [Co-operative] Party (Campbell et al., 1977). The Co-operative Party mainly followed the lead of and was dwarfed by the Labour Party.<sup>639</sup> Most significantly, the Co-operative Party missed the chance to argue for a more democratic and consumer-led forms of nationalisation than those set up after WWII.<sup>640 641</sup> As further proof of its relative failure, despite the huge size of the movement after WWII, the Co-operative Party unsuccessfully fought against Price Maintenance (RPM)<sup>642</sup> legislation – which basically sanctioned the cartelisation practices of its rivals.

Generally speaking, the Co-operative movement after WWII became even more entrenched in a defensive “ouvriérisme”. The main rationale behind this retrenchment was that, by default of effective influence on policy agencies, Co-operators should at least attempt to protect the integrity of their lifeworld from alien influences. In doing this, Co-operative leaders willingly increased the associational isolation of the working classes and consolidated the stratification of society in class terms (McKibbin, 1984).

v) *Treasury*

In the nineteenth century, relations between labour and capital were not embraced by State politics (McKibbin, 1984), which hurt the hand of employers and benefited the hand of Trade Unionists and Co-operators considerably. By contrast, in the twentieth century, market questions came increasingly under the jurisdiction of civil servants, who used their status of a neutral, third party to convert their views of in practice. Crucially in this regard, civil servants kept coming from the same privileged strata of society in post-WWII England (Savage, 1996: 179). And the Treasury more than ever was the most prestigious and powerful of government departments, responsible for both domestic and international economic policy.<sup>643</sup>

The Treasury usually takes the side of those actors most steeped in traditions of secular Anglicanism. This is one reason for the apparent alignment of City and Treasury interests, the other reason being the Treasury’s focus on maintaining the integrity of the fiscal constitution. This appearance of alignment could be misleading, however: alignment often had less to do with preferred policy goals or sectional interests than common enemies and aversions. By contrast, civil servants victimised the Labour Party more than once; Treasury officials in particular regarded the Labour Party as unfit to govern.<sup>644</sup>

Even after WWII, when the Labour<sup>645</sup> Party secured a majority in Parliament, this did not change. For one, Labour was hampered in its advocacy of postwar reforms by its participation in the wartime coalition and by its legacy of suspicion towards Keynesian reform in particular. While the main initiatives for change for a long time came from Liberals, the enormous opportunities for reform demonstrated by WWII, convinced Labour of the efficacy of some state solutions. Nevertheless, despite the promises in the post-war Labour manifesto, the Labour Party was not ready to challenge the legitimacy of private enterprise, as its Co-operative ally was willing to do.<sup>646</sup> As a result of this lacuna, the formulation of policy increasingly rested with the civil service (Mercer, 1995: 93-94). Afraid of hurting its good relations with the business elites, and faced with a dire state of the balance of payments and the opposition of the Treasury<sup>647</sup>, Labour policy-makers did not dare to engage in a comprehensive nationalisation of the financial sector.

From 1946 to 1959 access to the capital market was subject to official control, exercised for the Treasury by the Capital Issues Committee. This control dated from 1936, but was consolidated in the Borrowing Act of 1946. It proved useful in regulating overseas

borrowing, but on the domestic front the Radcliffe Committee found it ‘impossible to resist the broad conclusion that this control had no significant impact on the pressure of total demand’.<sup>648</sup> What this Act did achieve, however, was the control of the queue of borrowers in the interests of government issues (Thomas, 2004: 288).

*vi) Bank of England*

Since 1933, the Bank of England informally assumed several new roles. It increasingly became the day-to-day manager of sterling and an alternative source of official advice regarding sterling (Davies, 1994: 379). Also, throughout the 1930s the Bank of England was unceasing in its pursuit of central bank cooperation within the empire.<sup>649</sup> Finally, the Bank of England had been involved in industrial rationalisation practices in the 1930s. Under pressure of popular opinion and the MacMillan Committee, the Bank of England had attempted to imitate the German model of industry rationalisation. In particular, the Bank had encouraged financial institutions to cooperate in creating the Bankers Industrial Development Company, with the aim of supporting schemes of rationalisation in the staple industries (Ross, 1989: 41). This was an essentially defensive attempt by the bank to extricate itself from its industrial holdings, and, in particular, fend off calls of nationalisation and intervention in monetary policy.<sup>650</sup>

Bank officials of the City saw themselves as the representatives of an internationally oriented financial community. Considering themselves the custodians of the exchange rate and financiers for the public debt, they tended to oppose devaluation, any alterations to the financial system, and expansionary measures that might lead to higher borrowing or balance of payment difficulties. In particular, the Bank of England acted as a powerful force for fiscal conservatism in both the interwar and postwar periods (Hall, 1987: 283).

After WWII, under pressure of the US government, the British government officially handed over powers of “rationalisation” to the Bank of England. Rationalisation policies were aimed not at industrial efficiency, but at preserving the stability of the banking system without direct state intervention (Mercer, 1995: 29).<sup>651</sup> By the 1950s, large swathes of the economy had come under state ownership, and the Bank of England had monopolised most foreign exchange funds. Also, the Bank of England could tighten or ease credit whenever the government required. Opportunities for international central banking only really became available from 1958 with European convertibility. Thereafter central bank co-operation through Basle was repeatedly used to assist the British government its bids to prop up the sterling (Cottrell, 1995: 139).

*vii) London Stock Exchange*

In the 1930s, the resonance in popular opinion of arguments of free trade cosmopolitanism decreased rapidly. In response, the City of London showed signs of becoming more concerned about its public image. The Stock Exchange, for example, in 1937 set up a voluntary fund to help make good future losses sustained by the public at the hands of defaulters. Also, the Stock Exchange tried to reassert its domestic national roots: “The London Stock Exchange is a national institution. It adheres to no party; it subscribes to no party funds. It does not engage in party politics. But an organisation so intimately concerned and bound up with the national economy must at all times play its part in the affairs of the nation (Braithwaite, Chairman of the LSE, 1951: 2).<sup>652</sup>

The Stock Exchange for centuries had been the quasi-official regulator of the securities market and its members were able to charge fixed commissions at their own discretion. After WWII, however, a significant part of the City became dependent upon

either government business or protection for its livelihood. The government decided what was in the national interest and expected the City to adhere to its agenda (Michie, 2004: 42).<sup>653</sup> From the end of the 1950s, however, a new dynamic beyond government or Bank of England control would develop: the Euromarkets.

All in all, up to the 1960s, there was a high level of continuity between the Labour and Conservative governments' approach to the City. Both promoted the interests of the City to meet their policy goals of supporting sterling, the balance of payments, and London as an international financial centre (Schenk, 2004: 338-339).

### **9.3 Firms' strategic positions in new settlements (phase 3)**

#### **9.3.1 Renewal democratic settlements**

##### ***a) Misinterpretation of English traditions of sound finance***

As we have seen in chapter 4, English principles of sound finance are grounded primarily in the tradition of voluntarism, and only secondarily in the tradition of City monetarism. Because of its association with the Golden Age of Empire and the rise of "unilateral liberalism", however, the tradition of City monetarism came to be associated more with geopolitical success than Tory voluntarism. Hence, it could not simply be abandoned after the decline of the global financial system in the 1930, especially since the more closed Commonwealth system allowed for the co-habitation of both traditions. As demonstrated by the actions of the government and Bank of England – who encouraged or at least turned a blind eye to the entry of overseas banks and investors in London's financial markets, hopes of the City returning to a status of world financial centre were never lost. More remarkably, the visible decline of the British empire in the period 1930 to 1965 – a period of national "relocalisation" rather than globalisation – did not trigger a search for an English identity. English political parties, business leaders and media were far too deferential to traditional understandings of the global nature of national interests and objectives to allow this. Conservative and Labour elites alike did everything they could to allow the old British identity to survive: the identity based on the primacy of "England and Empire" minus those traits that might antagonise the Scots and the Welsh. English elites were very suspicious of any North-American tradition of "happy mediocrity" creeping in the British identity. Still, in order to ensure the continuity of the British identity, they had no choice but to agree to the integration of British military and financial interests in a new concept of Pax Americana.

##### ***b) Consolidation of interwar class and inequality trends***

All in all, the 1940s and 1950s saw a consolidation of those trends that set in during the interwar period.<sup>654</sup> Despite Labour's attempts to universalise policy principles on the basis of need rather than ability to pay, the resonance of "England and Empire" and "Anglican democracy" ensured that the distinction between the realms of necessity and freedom – respectively the domains of lower-class life and physical labor, and upper-class life and politics – would remain firmly in place. England and Empire denoted the idea that maintaining the world class status of England depended on the formation of character that continuous imperial struggle and duty brought about (Tidrick, 1990). Anglican democracy pointed to the principle – (re)invented by Disraeli – that domestic stability can only be achieved if policies are inclusive enough of middle and working class interests. The two

principles reinforced each other in fostering “the natural acceptance of hierarchical distinctions” in England (Norton and Aughey, 1981, 66-79; Crewe and Searing, 1988). Their success not in the least had to do with the Conservatives’ strategy to systematically brand the Labour movement as anti-national – for instance with regards to the special rights of English workers in the Commonwealth, despite accusations of xenophobia.<sup>655</sup> It was also facilitated by the attitude of the civil service and courts: by and large both entities snubbed social-democratic aspirations of active interference and staunchly adhered to the rather passive principle of neutrality.

After 1945 class struggle gave way to self-sufficient class consciousness. While a small part of the lower ranks was still considered “roughs”, the working classes now presented a rather homogeneous and self-confident appearance, with little aspiration after middle-class values (Marwick, 1996: 43). Notwithstanding the persistence of severe regional income inequality (see table 9.1), regional economic growth figures converged to some extent, due to the temporary decline of the City as a centre of world finance (see table 9.2). In terms of social mobility, post-WWII England actually did much better than the caricature of Thatcherite meritocrats allowed for. For instance, especially when Labour was in power, government cabinets were more inclusive of ministers with a lower middle and working class background, as well a less privileged educational background (see Appendix O). As a matter of fact, the post-1950 period produced a greater degree of inter-generational mobility than the post-1980 period (Blanden et al. 2004; Breen, 2004).

**Table 9.1: Regional variations in weekly income per head 1963 and 1964**

*Source: Banks, 1971: 64; Table 8*

	<b>% of UK (100)</b>	<b>% of London and S.E. (index=100)</b>
<b>London and South-Eastern</b>	126.7	100
<b>Midland</b>	112	88.4
<b>Southern</b>	107.3	84.5
<b>Eastern</b>	98.7	77.9
<b>North-western</b>	95.3	73.7
<b>North-Midland</b>	93.3	73.7
<b>South-Western</b>	91.3	72.1
<b>Northern</b>	80	63.2

Remarkably, this suited Conservative aspirations of national unity rather well, especially regarding the issue of housing. Towards the end of 1940s housing had emerged as the centrepiece of Conservative social policy proposals. The Labour government had placed severe restrictions on building for owner-occupation and encouraged local authorities to meet the mortgage needs of house purchasers, a tradition building society competence. Labour’s housing policy was targeted at general needs, rather than focused on more specialised aims such as slum clearance and quality.<sup>657</sup> Unfortunately, congestion and materials shortage in the building industry led to public disaffection with socialist housing policy. Conservatives jumped on this weak spot, hoping to use housing as a showcase policy to demonstrate the virtues of free enterprise. Under the Conservative governments

of Eden and Macmillan, home-ownership finally became an actively pursued fiscal policy (cf. Daunton, 1987: 76-78). Eventually, Conservatives hoped, their housing policy would not only turn Britain into a property-owning democracy, but also help to bridge the north – south divide in Britain through wealth creation rather than redistribution.

*c) The two North-South divides in Britain*

One error of judgement made by the Conservatives in this regard was to ignore the fact that with the decline of the British Empire, new links between the State and its associated nations – in particular England and Scotland – had to be made to reinvent a viable British Union. This issue was especially relevant since it referred to the fact there were two divides in Britain, not one; and that encouraging voluntary investment in home-ownership was bound to be more successful with regards to the first than the second divide. One divide in Britain was between what can broadly call the north and south of England, the former comprising the “manufacturing heartland” of the country – the West Midlands, North West and Yorkshire Humberside, the latter London and the old agricultural heartland that had become the home of the new services, light engineering, electrical and consumer goods industries – the South East, East Anglia, South West and East Midlands (Martin, 1988). Importantly, in terms of traditions of democratisation, while the manufacturing heartland was the cradle of nonconformist “voluntaryism”, the growing influence of Anglican church and educational establishments in the spirit of “secular Anglicanism” in the the northern half of England, gradually reproduced a weak form of Tory voluntarism there. This form of voluntarism was neither entirely nonconformist or conformist, but still was much closer to the Home Counties’ traditions of democratisation than the ones produced in for instance Scotland with its own national, “non-established” Church, its own legal and educational traditions (Dickson, 1988).

**Table 9.2: Rates of GDP Growth per UK region (% per year)**

	<i>1871-1911</i>		<i>1911-1954/5</i>	
	<i>Real GDP</i>	<i>Real GDP/Head</i>	<i>Real GDP</i>	<i>Real GDP/Head</i>
<b>South East</b>	2.19	0.96	1.42	0.78
<b>London</b>	2.33	1.14	0.56	0.58
<b>Rest of South East</b>	1.94	0.67	2.44	1.32
<b>East Anglia</b>	0.44	0.16	1.57	1.22
<b>South West</b>	1.04	0.68	1.54	1.05
<b>West Midlands</b>	1.53	0.56	2.54	1.77
<b>East Midlands</b>	1.59	0.36	1.92	1.29
<b>North West</b>	1.86	0.54	1.32	1.04
<b>Yorks &amp; Humb</b>	1.89	0.63	1.61	1.25
<b>North</b>	1.75	0.40	1.55	1.27
<b>Wales</b>	2.14	0.80	0.98	0.80
<b>Scotland</b>	1.95	1.06	0.84	0.67

*Source:* Crafts, 2004: Table 5, based on for 1954/5, *Annual Report of the Commissioners of the Inland Revenue*, Cd. 341 (1958), for 1971 and 1981, *Regional Trends*, for 1991 and 2001, Cope et al. (2003).

This brings us to the second divide in the British Union: the divide between the bulk of English regions and the so-called "industrial periphery", comprising those regions whose employment base for more than a century had been specialised in an industrial activity whose productivity declined much earlier than those of the manufacturing heartland: coal mining. The industrial periphery consisted of Wales, Scotland and the Northern region of England – excluding Humberside and the North West. With the apparent decline of the Empire, and in the wake of Irish independence, the divide resurged most clearly in the form of Scottish nationalism (Devine, 2000).<sup>658</sup> The resurgence of Scottish nationalism took some to consolidate in popular opinion. The demise of Hardie's Scottish "evangelical socialism", its replacement by a more bureaucratic, London-centred Labour Party (Knox and MacKinlay, 1995: 174-175), and the resurgence of the Scottish Conservatives after WWII had appeared to substantiate claims that Scotland was just another part of the North of Britain. Conservatives even suggested that Scottish nationalism in effect amounted to a call for more rather than less Union (Morton, 1999). Yet, under many observers' radar, the Scottish National Party as well as many Scottish Labour dissenters, revived the indigenous tradition that viewed civil and religious liberty as the peculiar achievement of seventeenth-century Scottish Presbyterians (Pentland, 2005: 1001). In effect, this was the beginning of the end for the resonance of English constitutional liberties in Scotland – liberties referring to the English Revolution mythology of "Liberty and Property". The main reason why this change remained unperceived for a long time – the public calls for devolution in the 1970s, is that it looked continuous with the hybrid make-up of Scotland since the union of 1707; since then Scotland had retained the body of its civil society while ceding political control to a Parliament based at Westminster.

In their efforts to differentiate themselves from English traditions of liberty, Scottish nationalist leaders promoted more homegrown, public provision and less Westminster-based regulation in the name of the « age-old » Scottish system of "democratic intellectualism and common sense" as well as greater « equality of opportunity through public provision » (Kay et al, 1998).<sup>659</sup> These calls proved to be quite resonant, as the regional development of the Scottish NHS in Scotland would demonstrate, with a little help of the British Treasury (Bruce and Forbes, 2001; Hunter and Williamson, 1991: 167; Stewart, 2003). The comparatively greater poverty and unemployment in the Scottish industrial periphery, combined with the greater diffusion of State assistance and the revival of homegrown traditions of public provision meant that Conservatives' property-owning democracy calls fell on rather deaf ears. Indeed, the rate of owner occupation in Scotland – and to a lesser degree in the North of England – remained far behind the rates of owner-occupation in England – with English rates of respectively 32 and 51 percent in 1953 and 1971, and Scottish rates barely reaching 30% in 1970. The opposite was true for the rate of council-rented housing.

### **9.3.2 Formal evolution of the suffrage**

The disproportion between population and representation was allowed to grow very significantly after the 1918 redistribution. Up to 1948, certain sorts of fitness still received additional reward by virtue of their privileged business or university status. Indeed, so persuaded were politicians by imperial notions of quality and character that graduates were actually granted five further seats in 1918. By the early 1920s business voters numbered around 200,000 (217,000 by 1945) and graduate-electors 60,000.

Property and education were rewarded with up to two votes (additional to that gained by simple residence). Effectively, it also rewarded manhood and Conservatism (the business vote alone is believed to have swung constituencies rightwards on 18 occasions between 1922 and 1945, quite aside from the two seats regularly bequeathed by the City of London). Only in 1948 were these remaining qualifications to a fully democratic franchise finally expunged, along with the six-months residency qualification and two-seat constituencies. In 1969, adulthood was redefined from 21 to 18. 2001 witnessed the enfranchisement of the homeless (Garrard, 2002: 82-83).

### 9.3.3 Firms' strategies of democratisation

In Figure 9.1, I visualise the growth of the different financial institutions in terms of total amounts of deposits received. In Tables 9.3 and 9.4, I provide more specific growth and marketshare figures (in terms of both deposits and total assets) over the period 1900 to 1930

**Table 9.3: Growth and marketshares of a variety of English financial institutions**  
(in terms of deposits)

Year	Building Societies	Joint-stock Clearing Banks	POSB	TSBs	Co-operative Bank
<b>1930</b>	371	2519	290	133	44
<b>1938</b>	759	2277	524	243	70
<b>1948</b>	1038	5912	1970	764	90
<b>1964</b>	4331	7971	1793	1591	180
<b>Growth x</b>	<b>11.67</b>	<b>3.16</b>	<b>6.2</b>	<b>11.9</b>	<b>4.1</b>
<b>Share %</b>	<b>27.5</b>	<b>50</b>	<b>11.5</b>	<b>10</b>	<b>1</b>

Sources: Broadberry, 2006; Capie and Webber, 1985; Cleary, 1965; Co-operative Bank archives; Gosden, 1996; Sheppard, 1971; UK Central Statistical Office (various years)

**Table 9.4: Growth and marketshares of a variety of English financial institutions**  
(in terms of total assets)

Year	Building Societies	Clearing Banks*	POSB***	TSBs***
<b>1929</b>	312.7	2059.6	285	130.1
<b>1932</b>	469.3	2205.6	305.7	161.9
<b>1937</b>	710.4	2496.4	470.5	235
<b>1951</b>	1357	6464	1875.9	956
<b>1960</b>	3166	8259	1822.5	1314.6
<b>1968</b>	8298	11817	1800	2200
<b>Growth x</b>	<b>26.5</b>	<b>11.7</b>	<b>6.3</b>	<b>16.9</b>
<b>Share %</b>	<b>34.4</b>	<b>49</b>	<b>7.5</b>	<b>9.1</b>

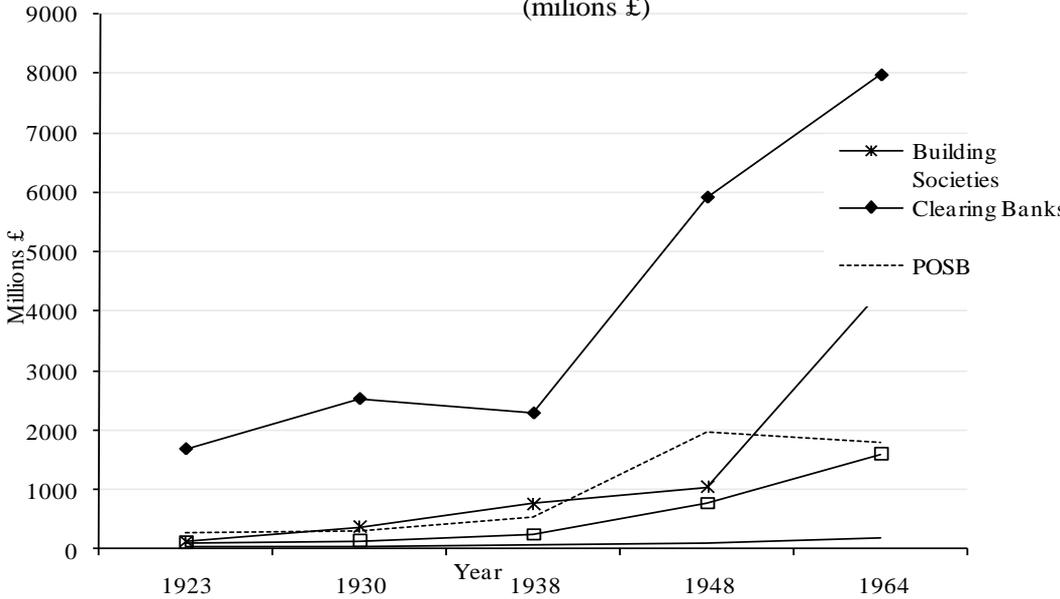
Sources: Boddy, 1980; Broadberry, 2006; Capie and Webber, 1985; Cleary, 1965; Co-operative Bank Archives; Sheppard, 1971; Gosden, 1996; UK Central Statistical Office (various years)

\*Figures for London clearing banks from 1951 onwards

\*\*Figures from private Co-operative Union archives; data for 1932, 1937, 1951 missing; data for 1960 and 1968 extrapolated from available archival figures on 1963 and 1972

\*\*\*Figures of POSB and TSBs for 1968 are rounded extrapolated figures

**Figure 9.1: Total Deposits Eng 1923-1964**  
(millions £)



. I also provide a ranking of the variety of financial institutions for the period 1900 to 1930 in table 9.5, based on the respective financial institutions' effectiveness in terms of each strategy. In the subsequent sections, I expound how the particular strategies of democratisation followed by the above variety of banks – their particular deployment and combination of the four logics of democratisation – underlies these differential growth patterns.

**Table 9.5: Ranking of English financial institutions per strategy of democratisation for the period 1930 to 1965 (1=highest, 5=lowest)**

	Clearing banks	Trustee Savings banks	Post Office Savings Bank	Co-operative bank	Building Societies
<b>Strategy a</b>	3	3	3	5	1
<b>Strategy b</b>	1	2	4	5	2
<b>Strategy c</b>	3	3	3	5	1
<b>Strategy d</b>	1	3	3	5	2
<b>Strategy e</b>	1	3	3	5	2
<b>Strategy f</b>	1	3	3	5	2

## **Strategy a Help core customers fulfil their social class aspirations**

### *i) Clearing banks*

Summarised quickly, starting with the world financial crisis of 1929-1931, clearing banks were fast becoming mediocre vehicles of minority democratisation – social and economic mobility. The Bank of England’s duty to act as the banker of the world rather than just of England, meant that domestic stability came to depend even more on clearing banks’ liquidity position. Thus, a new gentleman’s agreement came into effect that stipulated that one third of clearing bank assets should be held in liquid form, as a means of cushioning their cash reserves from seasonal and other shocks (Jasay, 1956: 247). This agreement, as well as further « voluntary » restrictions on their operations, resulted in clearing banks becoming static, introverted organisations. Not surprisingly, the growth of a panoply of gentleman’s agreements was accompanied by an even greater influence of the old, private banking families in the senior management of clearing banks (e.g. Ackrill and Hannah, 2001: 85).

By 1960s, the English banking system appeared to be entirely dominated by the Big Five clearing banks, which used the discount market as a home for their surplus funds (Grady and Weale, 1986: 4). This appearance was somewhat deceiving, however. While remaining the largest English financial institutions in terms of total assets, clearing banks’ growth figures for many years had lagged behind the ones of their competitors – be it with regards to domestic price competition, or vying with overseas banks for a share of the Eurodollar market. So, between 1959 and 1965 clearing banks deposit business grew by just under 5 per cent annually, compared with an average annual growth of approximately 6 per cent annually in GNP. Meanwhile, deposits with overseas banks grew by over 25 per cent a year and building societies’ shares and deposits by just over 10 per cent a year. As a result, by the end of 1970 the total amount of deposits in North-American banks in London and in English building societies exceeded those of the London clearing banks.

In an international perspective also the performance of English clearing banks was poor. As in other Continental European countries, more than half the English public had no contact with the banking system until the growth of white collar and skilled blue-collar worker wealth in the late 1950s and 1960s. The difference is that, while in the 1950s and 1960s a “banking revolution” occurred in continental European countries with a weak retail banking legacy such as Germany, Sweden and the Netherlands, the English retail banking sector experienced no such thing.<sup>660</sup> English clearing banks’ motto “the customer must be won, not by the rate of interest offered, but by the range and standard of facilities provided” (Clegg, 1969: 169), clearly lacked effectiveness and entrepreneurial spirit. Thus, from being comparatively ahead of continental retailing evolutions, English retail banking after WWII fell behind. The more general point here in terms of traditions of democratisation is that the version of the tradition of Anglican monetarism held by the clearing banks and the Bank of England was in dire need of reinvention in terms befitting the contemporary situation of foreign fringe banks in the City and soaring building societies – whose financial dealings were not included in official monetary matters.

### *ii) Building Societies*

Building societies gradually became the new champions of social and economic mobility in England, hesitantly at first in the 1930s, but increasingly confident with the housing boom in the 1950s and 1960s.<sup>661</sup> The collapse of the stock market in 1929, so soon after the new issue boom of 1928, disillusioned new investors in particular and persuaded them that building societies provided a better mix of security and revenue.

This gave the necessary momentum to a shift that had been underway for some time: the shift from a working class clientele to investors from higher income groups.<sup>662</sup> Slowly, a distinction became apparent between depositors and shareholders, the latter earning a higher interest rate – and greater attention from the middle classes.<sup>663 664</sup> When after WWII, the increase in the size of the average share continued, it became finally clear that building societies could no longer be regarded as the custodians of working-class savings only, as was almost universally assumed in the year 1931 (Baker, 1947).<sup>665</sup> This trend was to continue afterwards (Moreh, 1966: 167-169).<sup>666</sup> Throughout the Macmillan period (1957-1963), the most important source of new personal savings in England was that represented by funds placed with building societies – and insurance premiums. The building societies re-lent large amounts of these savings to British industrial companies through the new issue market (Nevin and Davis, 1970).

iii) *Savings Banks*

The Trustee Savings Banks and the Post Office Savings Bank remained moderately successful vehicles of minority democratisation in the period 1930 to 1965, the former especially for the lower middle classes, the latter in particular for the smallest savers. As building societies, TSBs in particular received a boost in the early 1930s, when yields on securities were relatively low, and the purchase of annuities provided a very profitable outlet for funds. This allowed especially the TSBs to attract funds away from the gilt-edged market at the expense of the growth of commercial bank deposits. With their higher rates of interests and buttressed by the housing boom, building societies increased their total assets sevenfold in the 1950s, TSBs threefold, while the figures for the POSB remained almost static (Gosden, 1996: 149-150). With regards to deposits, between 1959 and 1965 the average annual rate of growth in deposits with the TSBs was 9 per cent; the rate for POSBs was less than 2 per cent. While the POSB had grown at a very high rate in the 1940s (Nevin and Davis, 1970: 214), its comparatively – vis a vis other European countries – late introduction of a postal giro system in 1968, meant that it already had lost a big chunk of the “aspiring” working classes to building societies and working classes.

iv) *Co-operative Bank*

During periods of austerity and rationing – such as WWII – Co-operative membership boomed. When in the 1950s disposable income and credit opportunities soared, however, the methodist and Webb legacy of catering exclusively for “rational wants” and avoiding credit services seriously hampered Co-ops’ growth and led them to be stigmatised as “old-fashioned”. To examine the causes of the lack of success of the Co-op movement - including the CWS banking department, an inquiry was launched in 1955. The Co-operative Independent Commission Report<sup>667</sup> identified several problems. There was too great a concentration of activity in the north, and not in the south and west – the wealthier area. Second, in highly urbanised England, the Co-op movement was weakest in the larger towns, strongest in the country and small towns. Third, the Co-op image was in need of updating to appeal to a younger generation.

**Strategy b Cater to customers of different social classes**

i) *Clearing banks*

The English establishment considered clearing banks vital to maintaining consensus between the social classes, and embodying principles of national unity, status quo and “safety first”. In particular, clearing banks were seen as vital to invigorating the Disraelian tradition of Anglican democracy, i.e. the infusion of English people with a

natural acceptance of hierarchical distinctions in a system of integrated social strata. Barclays and Lloyds proved most adept at achieving this. When it came to fostering a sense of inclusion in a Commonwealth amongst all ranks and walks of life, English banks largely missed out on the new retail banking revolution – that had started in some Continental European countries such as the Netherlands in the 1950s. Certainly in international comparative perspective, English clearing banks were fast becoming old-fashioned in their attitude to the lower and managerial ranks, certainly by the 1960s.

ii) *Building Societies*

Building societies were fast becoming important vehicles of consensual democratisation, given the increasing preponderance of « property-owning democracy » ideas. The building societies mobilised and canalised the money of all classes (see table 9.7), merged it with the surplus funds of solicitors, societies, churches, clubs and companies and made it available to wage and salary earners who were willing and sometimes not even able to undertake the purchase of a house. In the 1930s, the movement offered an “ideal form of investment in a stormy world”, and “the response was at times embarrassing” (Elkington, 1935: 55; Cleary, 1965: 190). Different from bank or industrial company shares, there was no variation in the capital value of a building society share, while the rate of interest is consistently above that of gilt-edged securities.<sup>668</sup> This reputation would stay with building societies for many decades to come, pushing their shares to an unprecedented popularity in the 1950s and 1960s.

The fact that building societies did not have to make profits as such, enhanced their popularity even more. Instead of maximising their profits, building societies tried to maximise mortgage loans while maintaining a stable, socially acceptable level – which since the mid-fifties has often been below economic equilibrium levels. Having highly liquid liabilities greatly helped in this regard. Since many investors were prepared to trade off liquidity against yield, building societies had access to relatively cheap money, and as a result were able to reduce the net cost of funds (Moreh, 1966: 2).

**Table 9.7: Proportions of social classes who invest in building societies and trustee savings banks 1961/2**  
(Moreh, 1966: 170)

Social Class	Per cent of investors per social class	
	<i>Building Societies</i>	<i>Trustee Savings Banks</i>
<i>Upper middle class</i>	21	15
<i>Middle class</i>	16	17
<i>Lower middle class</i>	14	22
<i>Skilled manual workers</i>	9	24
<i>All classes</i>	12	22

iii) *Savings Banks*

As ever, both the POSB and TSBs dutifully played their roles as vehicles of consensual democratisation. In comparison with building societies, one thing stands out: TSBs also managed to attract funds of both the middle and working classes, albeit more at the lower end of the class spectrum than building societies (see table 9.7). In sum, investment possibilities at building societies were slightly less inclusive towards the lower

classes than at TSBs, but much more geared towards diminishing resentment for the upper classes and conveying a feeling of an integrated society. This gave the building societies an edge in terms of Anglican democracy. It also gave them an edge in terms of “secular Anglicanism”. As most house buyers did manage to keep up their repayments of building society mortgages, and as house ownership conveyed a much greater commitment to a property-owning democracy than savings, building societies were more useful vehicles for discouraging extremity of beliefs and feelings in England than the more old-fashioned and paternalistic savings option.<sup>669 670</sup>

iv) *Co-operative Bank*

Immediately before and after WWII, the Co-op movement was “at the peak of its development” (Birchall, 1994: 136).<sup>671</sup> Despite the immense visibility of the Co-operative Wholesale Society, the economic success of its banking department remained disproportionately modest, reaching marketshares of less than 1%.<sup>672</sup> As the world of clearing banks, the CWS world was fast becoming a static, introverted « club », a world everyone knew each other (Whiting, 2000: 48-49). Unfortunately, contrary to clearing banks’ club, the Co-operative club was operating in the lowest social class regions.

**Strategy c Make State policy on economic citizenship by “fait accompli”**

i) *Clearing Banks*

Clearing banks were relative failures when it came to introducing innovative conceptions of economic citizenship, due to their ineptness at reinventing either traditions of “voluntarism” or “monetarism”.<sup>673</sup> Voluntarism to some extent implies an ability to act freely from political control. That is where clearing banks were running in trouble. They were overburdened by political considerations.<sup>674</sup> Not only did the Bank of England formalise the gentleman’s agreements of the 1930s in terms of liquidity and reserve ratios. It also discouraged product innovation and competition on the basis of interest rates. All in the interest of stability, the Bank of England even opposed Barclays’ development corporation in the late 1940s (Jones, 1993: 56-57). With regards to the tradition of monetarism, clearing banks suffered a cruel fate. As they were considered the main vehicles of a stable monetary system,<sup>675</sup> the Bank of England appealed to clearing banks’ self-restraint in matters of exchange controls<sup>676</sup> and interest-rates, again to the detriment of their competitiveness. For one, the exchange controls were not watertight at all; since the 1930s problems of monetary policy had been aggravated by flows of foreign money into and out of deposits in London<sup>677</sup>. Overseas banks – to whom the Bank of England’s appeals did not extend – from the 1950s would take advantage of this to dominate the emerging Eurodollar business in London.<sup>678</sup> In other words, overseas banks were quickly becoming the new champions of monetarism in London. Remarkably, overseas banks’ version of monetarism was the result of a relatively intentional US Fed policy, and a relatively unintentional offshoot of the Bank of England’s policies.

Not everything was the Bank of England’s or the government’s fault, however. Clearing banks’ failing overseas strategy was due to their exaggerated embrace of the politics of imperialism. Although most clearing bank leaders soon realised that the profitability of their overseas’ ventures and clientele was remaining below par, they gave little thought as to how to exploit and organise their considerable banking empires. For instance, throughout the interwar years and into the 1950s Lloyds’ management exhibited a disturbing lack of strategic control over its operations in the different Commonwealth regions. Only Barclays was able to create some organisational logic for its overseas

ventures, by creating a multiregional overseas bank. Still, even this logic was deficient, especially with regards the integration of overseas and domestic operations (Jones, 1993: 50-51).<sup>679 680</sup>

ii) *Building societies*

Building societies became the new champions of the English tradition of voluntarism after WWII; partly because they were lucky. They made use of the government's and Bank of England's unrelenting support for a "world-state" type of monetary policy – in an epoch of rising chartalist pressures – to which only the clearing banks were subjected. Until the mid-1930s, building societies – especially those in the North where the movement was very strong – were relatively isolated from the finance market and the monetary policies of Treasury. Piggybacking on the housing boom of the 1930s, building societies grew bigger and integrated more in the capital investment market. This also meant they became increasingly subjected to pressures of monetary credit controls and interest rate fluctuations. In this tit-for-tat circle, building societies more and more consciously relied on interest rate fluctuations to pursue their purposes; relying not only on the savings of small investors but also on funds of a more volatile nature.

Yet, in spite of their growing role as a financial intermediary, the Bank of England did not waver from its prior views: building societies were special-purpose organisations, of little importance to monetary policy.<sup>681</sup> The old theory was that, contrary to clearing banks, building societies were not able to create credit – as they could not lend more than savers deposited with them (Reifler, 1959: 301). Thus, building societies' lending was to be excluded from monetary policy measures of credit restraint (Boddy, 1980). This exclusion from monetary supervision, together with their ability to embody the "property owning" democracy and "every man a capitalist" mottos after WWII, helped building societies enormously in their quest to become the new flagship of English voluntarism.<sup>682</sup>

Apart from being relatively unimpeded by Bank of England rules, and sheltered from the commercial competition of both clearing banks and foreign banks (Reid, 1992: 12), other dynamics also helped turn building societies in a desirable vehicle of economic citizenship. There obviously was fiscal policy. Fiscal policies that actively encouraged home ownership followed each other in a fast tempo. Testifying to the level of support for home ownership by governments of both parties since the mid-1950s, the building societies received their biggest fiscal break when Harold Wilson's Labour Party came to power in 1964. The budgets of 1965 and 1966 introduced a new Capital Gains Tax – designed to collect 30 per cent of gains realised on assets - with some notable exceptions, most notably owner-occupied houses and life insurance policies.<sup>683</sup>

In a rather unobtrusive fashion, building societies provided a type of economic citizenship which was far removed from socialist working-class ideals, yet highly effective. Not only did building societies' trump card, the composite tax deductions, benefit wealthier building society investors proportionally more. Building societies added to the distinction between higher and lower forms of economic citizenship in a highly innovative way. Staying true to their origins – and the State's desire to avert the threat of socialism and spread property ownership – building societies provided mortgage rates lower than the market clearing level. On top of that, however, building societies introduced a highly appealing distinction between a low-risk, low-gain deposit proposition, and an average risk, high-gain shareholder proposition.

All in all, building societies became especially popular amongst those aspiring to a higher level of economic citizenship in the 1930s, 1950s and 1960s. In the 1930s, the economic citizens came from aspiring working classes and lower middle classes.<sup>684</sup> From the mid-1950s, citizens from the middle and higher middle classes in particular became interested in building societies as a way to ensure their economic citizenship.<sup>685</sup>

iii) *Savings Banks*

Savings banks were outflanked by building societies in their bid to become the prime vehicles of economic citizenship innovation. Still, by allying themselves with the National Savings Movement from the 1950s onwards, especially the TSBs were doing relatively well. In 1950, TSB's balances amounted to about 15 per cent of National Savings. By 1970 this percentage had doubled, as the TSB's Special Investment Department was able to offer a better rate of interest than its National Savings Bank counterpart

iv) *Co-operative Bank*

The Conservative government had never been partial to the CWS and its banking Department. On the contrary, it had repeatedly attempted to take away any fiscal advantage the CWS possible could have received on account of its mutual status – in contrast with the treatment received by building societies. If one adds to this the lack of influence of the Co-operative Party on economic policies, the lack of resolve of Labour when in power, it becomes clear why the CWS banking department could not possibly be an innovator in terms of economic citizenship; especially given Co-ops image of “outdated” organisations in the 1950s and 1960s (see also proposition f).

**Strategy d Translate State policy on economic citizenship**

i) *Clearing banks*

Clearing banks were happy to play the role of bulwark of stability for the State, Bank of England and Treasury, to the detriment of their competitive resilience.<sup>686</sup> Indeed, by 1951, the role of the clearing banks had changed from being the primary dispensers of short and medium-term credit to the private sector to a role of mere manager of the money supply.<sup>687</sup> Partly because they were scared of what the enlarged electorate would do with its new powers if clearing banks antagonised them<sup>688 689</sup>, partly because they had no choice, clearing banks accepted to bear the burden of the Treasury's and government's unwillingness to let go of the primacy of monetarism, despite a post-WWII popular opinion largely in favour of more active chartalist policies. Essentially, clearing banks were acting as the “chartalist” substitute for an avowedly active fiscal policy. Those bankers who asked for a change in competition policy in order to confront the inroads made by overseas banks and building societies were told by the Bank of England such a change would not be desirable: if they were allowed to compete directly in price an offset would have to be sought in increased taxation in order to replace the present “implicit taxation on bank depositors”.<sup>690</sup>

Another point to the credit of clearing banks is that, while their Commonwealth ventures were far from profitable, they held on to them to keep the imperial flame alive and reinforce a sense of « special relations » and « unity » within the Commonwealth.<sup>691</sup>

ii) *Building Societies*

Building societies were champions of both the traditions of Anglican democracy and neutrality, in that they most successfully embodied the rising Conservative mood in England, while retaining enough of a reputation of defender of the working

classes and provincial autonomy not to chase away the Labour electorate in its Northern and Midlands bases. With their emphasis on private property and their solid middle class profile, the building society movement would soon provide “a good deal of the ballast that kept the ship of state on an even keel” (Bellman, 1928: 31). The Conservatives went as far as to depict building societies as “the antidote to all disease that threatens the body politic » and the stability of the English nation: « bad houses breed Bolshevism: good houses make for civil content and peace...Building Societies are rendering untold service in this direction »<sup>692</sup> (Boddy, 1980: 24-25).

The Conservatives were especially content that building societies managed to persuade several millions of people – who were hourly paid and who perhaps thought, financially, no longer than a week ahead – to undertake a regular commitment for up to twenty-five or even thirty years.<sup>693</sup> The Labour Party also came to appreciate building societies’ work.<sup>694</sup> In spite of the acrimony between the Labour government and the movement after WWII,<sup>695</sup> Labour leaders realised that the building societies not only maintained socially acceptable rates, but also “got down to the business of housing the low-paid classes”<sup>696</sup>.

The reason why building societies were very successful exponents of Anglican democracy and the principle of government neutrality in market affairs, is that, while they subjected all types of investors to a regime of passive democratisation, they managed to remain appealing. Building societies provided everyone with a rightful place in the Commonwealth by « severely attenuating » the property rights granted to both investor or borrower members (Thompson, 1997). While building societies’ compulsory adherence to the « straight-jacket » of « statutory law » (Wurtzburg and Mills, 1976: 3) restricted property rights, it was tremendously effective in solving the inherent conflict of interests between investor and borrower members. In particular, it provided a long-term answer to the needs of homebuyers for low-cost loans and the needs of investors in search of a low-risk form of saving with an above average return (Cook et al., 2001). This meant that the government could entrust a large chunk of housing policy responsibilities to building societies, and credibly present intervention in the housing market as a last recourse mechanism.

### *iii) Savings Banks*

The later 1930s and 1940s were dominated by the heavy financial requirements of the State and the post-war construction. As illustrated in table 9.3, the Post Office Banks grew disproportionately fast compared to the Trustee Savings Banks in trying to meet these requirements (Horne, 1947: 272). As argued above, building societies were greater champions of Anglican democracy than TSBs. This is true not only in terms of institutionalising all social classes in a system of naturally accepted hierarchical strata. It was equally true in terms of increasing a majority of people’s ownership of economic policy – despite the existence of conflicting preferences amongst these people. Building societies were key switching points in realising the government’s most important domestic policy: building a property-owning democracy. The POSB, for its part, was too focused on the lower ranks to lay claim of champion of Anglican democracy. Rather, it served to buttress the co-operative principle of neutrality, in that it helped the government to maintain a policy of relative non-interventionism, while avoiding grievances of unfairness.

### *iv) Co-operative bank*

During WWII, the Co-op movement earned a central place in the affairs of state, country, economy and individuals” (Sparks, 1993: 3). As mentioned above, after WWII,

the Co-op movement quickly declined in importance. While remaining a very modest bank operating in a small niche after WWII, the Co-operative Bank nevertheless lived its second era of branch expansion in the postwar decades. Thanks to the Co-operative Party's connection to Labour, and due to Labour dominating municipalities in the North and Midlands, the CWS banking department was able to expand its activities to municipal finance – between 1946 and 1951 about 100 councils transferred their banking business to the Bank.

### **Strategy e Become a champion of national character**

#### *i) Clearing banks*

Clearing bank leaders saw themselves as saviours of national character in more than one regard. Clearing banks still cherished their Commonwealth ventures, as they were a way to keep the “imperial flame” alive (e.g. Ackrill and Hannah, 2001: 270).<sup>697</sup> But after WWII, clearing banks also became increasingly preoccupied with domestic living standards, the health of British industry, and the need to sacrifice deposit rate competition in favour of economic stability.<sup>698</sup> As noted by Balfour, President of the Institute of Banker: “the banks have to recognise their responsibility to the community and the nation; for their business is one which can have far-reaching effects on the life and economic activity of the whole country. It is not just that higher deposit rates would make it impossible to go on providing, in the national interest, certain kinds of finance (notably to exporters) at very advantageous rates. The banks believe, in the light of their experience, that in more fundamental ways they serve the country's interests best by removing deposit interest rates from the areas in which they compete...widening of the area of competition' between the banks, to include interest rates, could prove to be at the expense of a potential loss of stability” (cited in Clegg, 1969: 178).

There were disparities between clearing banks' capacities to deliver on both goods, i.e. keeping the imperial flame alive and maintaining attractive and accessible services across England. In terms of the former good, I mentioned above how Barclays was more adept than its British competitors at giving economic sense and purpose to its overseas business. With regards to the latter good, there did exist important differences between clearing banks' overdraft services to industrial companies. For instance, the chairman of the North-East regional board of Lloyds in the 1930s – later to become a vice-chairman of the national entity – testified to having been in despair about requests for finance supported by the regional board being turned down by the main headquarter board. Because Barclays had left its local boards more autonomy, it managed to gain considerable business from Lloyds during these years (Carnevali, 1995).<sup>699</sup>

In 1957, Barclays finally advanced the Midlands Bank in terms of total assets, due to its greater ability to recombine London-centred imperatives and provincial autonomy. Barclays' policy of staying in touch with provincial traditions by maintaining a decentralised loan- and deposit decision-making structure at long last started to pay off – the Midland from its inception had one of the most centralised decision-making structures in English banking. Barclays itself attributed this success to the better training of its local directors in the post-WWII period (cf. Tuke and Gillman, 1972: 20-23). In addition to being more respectful of provincial traditions, Barclays had experienced more internal contestation of the imperial cause; Barclays' Quaker background undoubtedly caused part of its top personnel to be more left-centre and pro-decolonialisation than other clearing banks.<sup>700</sup> <sup>701</sup> One way or another, Barclays by many on the international scene was

considered one of the best banks in the world in the 1950s and 1960s, undoubtedly because of its international spread and the lingering resonance of British principles of sound finance.

On the downside, all English clearing banks experienced growing problems after WWII to attract those individuals whose qualities were most likely to be promoted as champions of a modern national character, given their unpreparedness to hire university graduates at a time when « the extension of State-aided higher education is skimming the cream off.. [our] future source of personnel». <sup>702</sup> In particular, the division between gentlemanly and managerial classes in banks such as Barclays and Lloyds would soon cause these banks trouble in face of the more unified managerial practices of US banks.

*ii) Building Societies*

If clearing banks functioned as a private substitute for a public policy of chartalism, building societies functioned as a private substitute for a public search of an English identity. During the housing boom of the 1950s and 1960s, home ownership and the building society movement rapidly became a symbol of the distinctiveness of the English nation, a nation fond of « Liberty and Property ». As early as 1930, building society leaders had foreseen this: “born and nurtured in the English tradition, the building society has proclaimed a practical ideal of self-help which has spread across the seven seas” (Bellman, 1930: 5). Because of the geographical spread of their portfolio, the building societies were remarkably adept at playing the role of champion of English national character. While underrepresented in Scotland and Northern Ireland, the movement was very strongly represented in as diverse English regions as Yorkshire and Humberside, the Midlands, the South West and the home counties. In other words, building societies were amongst the very few private organisations that managed to bridge the North-South divide in England – but not the North-South divide in Britain between the Scottish «industrial periphery» and England.

The building societies’ steady growth for a large part was attributable to, on the one hand, the mobilisation of emerging propertied groups in the provinces – mainly from the boom towns in the Midlands, and, on the other hand, a consolidation of the property establishment in the suburbs of the South-East. The London area functioned as something of a go-between. It was from this center of speculative finance that building booms emerged – for instance in the 1930s, in the 1970s and in the late 1980s with the conversion of some major building societies to PLC status. At the same time, it was in London that the house price/wage ratio rose most during speculative booms (cf. Speigh, 2000).

*iii) Savings Banks*

As mentioned above, the TSBs and Post Office Banks during each world war relied on the trick of advocating savings as a patriotic duty: by saving depositors would help buttress the war Treasury. Because WWII and its aftermath brought attractive interest rates on annuities, National Savings Bonds allowed especially the TSBs to continue with this moderately successful strategy (see table 8.5).

*iv) Co-operative Bank*

The Co-operative movement remained a very flawed proponent of national character. Clinging to the dream of an international Commonwealth, Co-operative leaders unconvincingly professed that they were « destined to play a big part in helping to rescue the world from the curse of competitive greed and imperialism » (Lansbury, 1935: 7). Banking being the ultimate British symbol of imperialism, these claims did the credibility of the CWS banking department no good.

Also, more than clearing banks, the CWS had trouble recruiting future leaders of the English nation. As with clearing banks, co-operative management was recruited from inside the movement, from those who entered Co-operative employment at the age of fourteen or older. The number of entrants with a grammar school or university education was negligible (Ostergaard and Halsey, 1965: 190). As a result, during the 1950s and 1960s the Co-operative Board was effectively sheltered from the threat of a “managerial revolution”. When after WWII, working-class wealth grew to a point that, working-class children increasingly attended higher education, this, however, would considerably weaken recruitment of the best candidates for management to the movement.<sup>703</sup>

## **Strategy f Become a champion of the national economic interest**

### *i) Clearing banks*

Clearing banks consolidated the public-private settlement they had so successfully initiated with the government, Bank of England, the Treasury, political parties and “imperial” interest groups from the beginning of the twentieth century. Before the 1930s, Clearing banks had managed to portray themselves as staunch defenders of the public interest, whilst remaining aloof of overtly public responsibilities, and retaining the privileges that accrued to that secretive world of old banking families and publicity-shy private ventures. Given the steady decline of the empire – largely unnoticed for a long time – and the increasingly “visible hand” of the Bank of England<sup>704</sup>, this settlement unfortunately did not have much future, forcing clearing banks’ private business into an increasingly “public” role.<sup>705</sup> This constituted an open invitation to the media to single out clearing banks rather than the government or Bank of England for a poor press. In view of the growing popularity in the 1950s of the view that Britain was in secular decline, criticism became especially scathing. Accusations that clearing banks were unresponsive to British industry’s needs had been around since the late 1920s – most of these accusations have been found to be unwarranted<sup>706</sup>, and could easily be fended off as Marxist propaganda.<sup>707</sup> But criticism had now taken an entirely new dimension: the banking industry was accused of being “the worst managed of our major industries” and the Big Five chairmen were depicted as lacking “either the character or the will, or it may be the knowledge and experience, to take the big decisions”. The banks had won for themselves the unenviable distinction of “always following, never leading...in sheep-like fashion”.

The Chief General Manager retorted that it was the Bank of England which had done a “lot of harm in preventing contact between Treasury and clearing banks”. On the other hand, he was also critical of the Westminster’s directors’ condescension for management, and the two-class system in full swing in the clearing bank world, except maybe in Barclays where the directors were traditionally practising bankers rather than an almost random collection of the great and good (Kynaston, 2001: 344-345). Beyond this criticism, however, clearing banks remained the City establishment’s bulwark in linking political and economic realities. After the nationalisation of the Bank of England, the Labour Party, for its part, called a truce with the clearing banks.<sup>708</sup>

### *ii) Savings Banks*

Nothing much had changed for savings banks: the TSBs and the Post Office Bank were still used to support monetary and fiscal policies, thus earning them praise for acting in the public interest. The TSB association was still relatively powerless in securing special advantages for itself. The POSB was entirely at the mercy of the Treasury’s

policies. One difference for the worse with the past was that National Savings Bonds now clearly outcompeted savings banks in terms of collected deposits, testifying to savings banks' decreasing centrality in defending the public interest.

iii) *Building Societies*

Throughout the 20<sup>th</sup> century, building societies followed the same strategy: to be perceived as vehicles of the public interest, they shunned any direct involvement with party politics or any conspicuous lobbying endeavours.<sup>709</sup> The downside of this strategy was that, while the societies were well respected locally in the communities – which bore their names, they were not as close to the government as the clearing banks. Things started to change in the 1930s, when the Building Societies Association (the BSA) managed to get more grip on the movement.<sup>710</sup> To counter fears of inflation and to help building a property-owning democracy, the BSA organised a building society cartel and endeavoured to keep mortgage rates as low as possible. Governments, trying to combat inflation through policies of influence and persuasion, closely watched these rates and on one occasion paid a subsidy to prevent their rising (Reid, 1992: 12).

The building society cartel appeared to both follow and run counter to the economic model of a price setting cartel. On the one hand, the building societies engaged in a deliberate rationing of the mortgage loan supply. The availability of loans undoubtedly paid a part in raising the costs of house purchase, also because lenders sometimes had to take recourse to high interest loans from other financial intermediaries because of the scarcity of building society funding (Boleat, 1986: 177). On the other hand, the cartel did not tend to keep prices up, but instead kept lending rates below the market clearing level. In addition, and also in defiance of the economic price-setting model, the cartel was not used by the few very large societies<sup>711</sup> to drive out their comparatively inefficient small counterparts. The BSA's cartel was sticky in that it made the supply of mortgages dependent on the supply of deposits (Pawley, 1993: 28-31)<sup>712</sup>.

From the mid-1950s, governments ensured societies total dominance of housing finance. Banks were fenced off from entering the field – by the lending cuts through which governments then helped influence the economy. Foreign financial groups were also excluded by exchange controls from playing in the UK market.

The Governor of the Bank of England first invited the Chairman of the Building Societies' Association in September 1957. Since then, a representative from the building societies and the Bank of England have met informally once a month to discuss the movement of the bank rate.<sup>713</sup> Obviously, this increased building societies' influence on both housing and bank rate policies. Especially, since these informal negotiations did not impact negatively on building societies' "non-party" character. Building societies remained on a good footing with both the Conservative and Labour Parties – both of whom regularly mentioned in electoral manifestos their influence on building society policy. This is remarkable, given two realities. First, after WWII, Aneurin Bevan – a member of the Labour government – had attacked the societies as "voracious money-lenders", supporting speculative house builders and encouraging people to take on mortgages that would turn into "gravestones around their necks" (Redden, 1986: 51). Second, from the late 1930s building societies were playing a part in the control of all the services connected with housing provision - planning, building, finance, and the sale of property.<sup>714</sup>

All this should have made them vulnerable to continued public criticism in the 1950s and 1960s. That is, were it not for the BSA, which almost always seemed to know how to manoeuvre itself in a position of "saviour" of public-private agreements to

ensure a steady supply of homes of a reasonable quality.<sup>715</sup> For instance, building societies helped the government in its quest to ensure that houses were built to acceptable standards and purchasers protected against shoddy work. Pressure had long been exerted on the National House Builders Registration Council (NHBRC)<sup>716</sup> to take care of this matter. Established in 1936, the NHBRC's purpose was to set standards and to control by inspection and certification the houses erected by house building firms subscribing to the scheme. But only about 30 per cent of all new private houses were covered by the scheme. The issue was resolved by the BSA recommending to its members that from 1st September 1968 no advance should be made on a new house unless it was certified by the NHBRC or had been erected under the supervision of an architect. Once this had been done, housebuilders throughout the country rushed to join the certification scheme (Ashfort, 1980: 185).

iv) *Co-operative Bank*

The 1930s had not been a good decade for the Co-op movement, as Neville Chamberlain pressed ahead with the removal of the co-operatives' mutual status in 1933, ranking them similar to joint-stock companies with their trading surpluses equivalent to the profits of a private business (Whiting, 2000: 50).<sup>717</sup> Given the steadfastness of Co-ops during WWII, however, the CWS banking department was one of the first banks to be recognised by the Bank of England and the Treasury as an "Authorised Bank" under the Exchange Control Act of 1947. This, however, did not mean Co-operative Banking was all of a sudden taken seriously in the City. It simply fits in the picture of a decade of efforts by leading figures in the City to show more concern for their image in domestic popular opinion.<sup>718</sup> Consider the following testimony by the Bank of England president Norman after having received a visit from two leading figures in the Co-operative Wholesale Society after the 1935 election. The Co-operative leaders apparently claimed to be "so big and important" that they ought to have "a seat on the Court". Norman added that "at present I do not think we need to take [this] too seriously" but at the same time he thought it best to cover himself by opening an account for the Co-op (quoted in Kynaston, 2000: 378-379).<sup>719</sup>

If anything, Co-ops' lobbying efforts became even more counterproductive after WWII. Co-ops were getting an increasingly bad press, and were depicted as hopelessly old-fashioned. Several national newspapers produced damning reports, accusing the CWS leadership of being "more interested in social and political aims than in shopkeeping"<sup>720</sup>, and finding Co-ops wanting with regards to modern standards of professional expertise<sup>721</sup> (cf. Ostergaard and Halsey, 1965: 191).<sup>722</sup>

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<sup>598</sup> The failure of industry to rise in status in twentieth century England was also due to the split between commerce and finance centered in the City of London and industrial manufacturing centered in the North. The first of the status groups, bankers, were more economically dominant and normatively authoritative; they were richer, possessed a more historical pedigree, and their style was more likely to be accepted by the old elite. Indeed, the new elites were "traditionalist, Anglican, and, in a very real sense, conservative." (Rubinstein, 1977: 623).

<sup>599</sup> Discriminatory measures were implemented against the rest of the world. These measures also allowed the Bank of England to manage transactions with the dollar area through a pooling system. Furthermore, the measures provided a mechanism whereby other members of the sterling area accumulated sterling balances whenever their exports were not balanced by imports.

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<sup>600</sup> « Washington's terms for a post-war dollar loan to Britain were contingent upon adherence by the United Kingdom to the Bretton Woods agreement, together with its associated trade-policy regime » (Cottrell, 1995: 114).

<sup>601</sup> It has been argued that only after WWII did England's dependence on the US become so acute that her global leadership had to be shared and later surrendered (McKercher, 1999). Others argue that this happened much earlier. Gladstonian Whig policies of economising on defence expenditures had left the English increasingly at the mercy of benevolent, but ultimately foreign military strength, both within the empire, and with regards to Europe and the United States (cfr. Cain and Hopkins, 1993: 668-679). Most notably, from WWI the British Empire relied more and more on US military strength. But from the end of the nineteenth century it also increasingly relied on the voluntary cooperation of for instance the Indian army and government – indigenous Commonwealth elites in general – in ensuring the sharing of economic profit, civil restraint, and political authority. These tendencies became more pronounced from 1939, to the extent that after WWII British empire and prosperity was framed increasingly on a discriminatory proposition whose viability depended needed US toleration, dollar underwriting and strategic protection.

<sup>602</sup>a) Americanisation traditions such as happy mediocrity have their roots in the American Revolution. The defeat of Tory loyalism and the ascendancy of the Puritan Radicals in the American Revolution, facilitated a settlement between the latter group and Whig moderates – the position of those elites who acquiesced to British dominance as long as the mother country did not interfere in economic and taxation matters. The ensuing settlement embodied many of the features ascribed to the denominator "Puritan" or "Real" Whiggism (Robbins, 1959). Led by Samuel Adams, Puritan Radicals were staunch supporters of evangelical egalitarianism and individualism (Fowler, 1997). Secular Whigs, by contrast, were convinced that civil society should seek to transform all men's natural rights into civil liberties while restricting active political rights to the property (Dickinson, 1981)- Striking a balance between Puritan radicalism and secular Whiggism, leaders such as Franklin promoted democratisation in terms of a civic virtue of "happy mediocrity", with an eye on producing a secular, middle class society which would overcome tendencies of both religious extremism and class rigidity (Carlson, 1975: 5-7). A tradition of Americanisation through education – the inculcation of the virtues of happy mediocrity – took firmly root in these years; a tradition which would leave a lasting imprint on North-American constitutional history in general, and the prominence of business education in particular. Clearly, the invention of this tradition helped leaders in the US to create and inculcate a distinct national identity to replace the political and cultural ties that had bound Americans to England and to Europe.

b) Traditions of Americanisation were first promoted by European Puritans – obviously ethnically white – intent on building a model Christian commonwealth, a nation which from the beginning, considered itself charged with responsibilities beyond those of other nations. In particular, the Puritans of Massachusetts Bay Colony set out to establish in their community the best religion, the best government, and the best society yet obtained in an imperfect world. By maintaining the purity of their colony's way of life, they believe they could create an educational example for the entire world (Carlson, 1975: 3-4). The spread of this puritan doctrine in the US and later the entire Western world was greatly helped by its early infusion – some would say "dilution" – by Whiggish principles, in particular universal fiscal and economic doctrines. This infusion mitigated the racist and elitist core of the puritan doctrine, and allowed the US to develop a sense of mission, a commitment to demonstrate to the world how a nation should provide liberty and justice for all. While waiting expectantly for other nations to copy US patterns, some Americans worried lest the example lose its purity. The United States was an experiment in which people of many religions, races, nationalities, political ideologies, and economic levels came by general invitation from around the world to create a new nation. Although they were proud of the policy of unrestricted immigration, these Americans wanted to ensure that such diversity would not destroy what they believed was freedom's prototype. To overcome the heterogeneity that they feared threatened the unity and example of their country, they relied on education. These proponents of education who sought to uphold freedom by indoctrinating norms of belief in religion, politics, and economics eventually became known as Americanisers. They applied their remedy for diversity, the Americanisation of education, to nearly all areas of life. Their quest for doctrinal orthodoxy also led them to seek for uniformity in high visibility areas like personal appearance, language, and personal habits...Americanisation of education in the interest of liberty thus became, paradoxically, an imperious demand for individual conformity to societal norms.

c) Benjamin Franklin – the most revered member of the Constitutional Convention of 1787, often referred to as the "first American" – came to champion the different Tory, Puritan and Whig traditions. He expertly and conveniently transformed his visions in line with the changing opportunity structure of the relation between the US and Great Britain (cfr. Crane, 1954; Brands, 2000). Given this contradictory background, Franklin came to embody the elite settlement which would infuse the United States with a constitutional and historical destiny. Before becoming a revolutionary patriot, Benjamin Franklin was a Tory loyalist, an influential supporter of the

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British-American connection (Potter, 1983: 107-182). Noticing the changing tide in the American colonies – where the once acquiescent press was rapidly becoming aligned with Puritan Radicals such as Samuel Adams – Franklin removed his support from the loyalist cause. Realising that British Parliament would never grant the expanding colonies autonomous status within the empire, and increasingly revolted about the corruption and luxury of the English ruling classes, forced him to rethink his commitment to the empire and embrace the vision of an independent, republican future for his continent (McCoy, 1978, Pocock, 1980: 280; Strourzh, 1969: 7-32). Above all, Benjamin Franklin, himself a product of Puritan New England, was influential in educating the Puritan Radicals to adopt a more secular and nationalistic mission, by encouraging members of the various Protestant sects to modify their principles in the interest of civil harmony (Carlson, 1975: 6).

<sup>603</sup> From the 1960s the suburbanisation movement in particular has been sustained by a Republican coalition of disaffected white evangelicals and middle class people (Wilcox, 1996; McGirr, 2001).

<sup>604</sup> Some commentators argue that British leaders might have been charmed by the notion that the US Empire of Liberty – the Pax Americana – would be a continuation of the “Anglo-Saxon” genius of the British Empire – the Pax Britannica – with its universalist ideology of liberty and free trade (Gamble, 2007; Watt, 1984).

<sup>605</sup> This obviously did not happen overnight, but was the result of US pressure since WWI. On the eve of WWI, “Atlantism” provided a basic frame of reference for the financiers in the City of London, Wall Street and Amsterdam engaged in the operation of the international circuit of money. This frame of reference was consolidated after the Bolshevik Revolution and President Wilson’s crusade for liberal-internationalist democracy – the universal application of North-American political and economic traditions – against “evil” Communism. With Russia out of the continental circuit of money capital, European financiers were forced to focus more on the Atlantic finance circuit. This tendency was even reinforced when, under the pressure of US demands of decolonisation after WWII, Western countries gradually gave up their continental interests (cf. Van der Pijl, 1984).

<sup>606</sup> « Amercian officials and politicians were concerned that central bankers should play the smallest role in the new post-war world, with Morgenthau stating in 1946 that his primary objective had been to ‘move the financial centre of the world from London and Wall Street to the United States Treasury’ and to create a new concept between nations of international finance under the control of ‘sovereign governments and not of private financial interests’ » (Cottrell, 1995: 110).

<sup>607</sup> It would challenge Britain’s arrangements for trade and payments by effectively countering the discriminatory strategies that protected its balance of payments and reserve position.

<sup>608</sup> From the mid-1950s in particular, the Bank of England vigorously promoted the City as a site for banking with a « liberal » approach to the regulation of financial institutions’ international activities. During the 1960s, for example, the Bank of England encouraged the development of the eurodollar markets with a comparatively « lax » regulatory environment (Kynaston, 1997).

<sup>609</sup> the Fed’s purpose concerning US banks’ international activity was to enhance their competitiveness in foreign and international markets. he banks’ ability to compete in international markets was also regarded as having beneficial consequences on competition at home, since foreign expansion of banks from Chicago or California challenged the traditional monopoly enjoyed by New York money centre giants – such as Citibank and Chase Manhattan – in providing international banking services.

<sup>610</sup> It has to be noted that the Conservative Party far too often is identified with Tory traditions alone; in fact the most resonant motto has always been “a good Conservative is both a Whig and a Tory”. Given this, it is not surprising that Conservative Party policy has long reflected an uneasy blend of paternalism and libertarianism (cf. Francis, 1996: 58). Depending on domestic and foreign pressures of democratisation, Conservative policy has tended towards either a Whig radicalism of laissez-faire capitalism or a Tory radicalism of paternalist protection. So, while in post-WWII England, Conservative leaders such as Eden made it clear that they were neither “a party of unbridled brutal capitalism”, nor “the political children of the laissez faire school” (Conservative Party, Annual Conference Report 1947: 420), in the late nineteenth and twentieth centuries the desire to woo middle-class businessmen and citizens ushered in a shift away towards the defence of the free market.

<sup>611</sup> This transpired most clearly in Conservative support for the US-policy to “smash the Communist menace” by means of both more reform and the suppression of Soviet subversion from the 1920s onwards.

<sup>612</sup> Similarly, from the 1920s to the 1940s the English judiciary had reinforced the triumph of cartelisation which preserved the independence of small firms. In fact, the courts tended to push the principles of neutrality and self-restraint to new limits, sustaining broad substantive results benefitting the established business order based on a so-called “get-along” ethos. For instance, the courts sanctioned the use of business coercion to enforce restrictive practices. According to a contemporary observer in the famous monopoly-case “Harris Tweed Case”, from the 1920s to the 1940s comparatively loose contractual arrangements gave way to tighter structural organisation, mostly in the forms of trade association. The principal object of these associations purportedly was to maintain

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minimum prices by a rigid control of wholesalers and retailers...These associations concluded "agreements with different sections of the trade by which both wholesalers and retailers undertook not to supply or buy from price cutters". The "principal means of enforcement" hereby was the "black list system" (Freyer, 1992: 216-217).

<sup>613</sup> In 1956, Macmillan reaffirmed what he had said some years before, namely that "Toryism has always been a form of paternal Socialism" (The Star, London, June 25, 1936).

<sup>614</sup> This catchphrase was first pronounced by Mr. Eden in 1945 (Lewis, 1954 : 3), and more prominently Winston Churchill..

<sup>615</sup> The movement for wider investment in industry by wage earners and other small investors" (Conservative Political Center, 1959 *Everyman a capitalist*. London).

<sup>616</sup> Towards the end of the Conservative opposition period – at the end of the 1940s, housing had emerged as the centrepiece of Conservative social-policy proposals, the heart of promises to spread property-ownership and the construction of a 'property-owning democracy'. Under Bevan, housing policy had taken on a universal character based upon need rather than upon the ability to pay ; licenses to build privately were restricted, and those homes which were built privately were limited in size and standard. The bulk of new housing was provided through the local authorities, and targeted at general needs rather than focused on slum clearance. But congestion and materials shortage in the building industry led to public disaffection with socialist housing policy ; this was the weak spot which the Conservatives, promising to unleash the productive forces of the market, hoped to use as a showcase policy to demonstrate the virtues of free enterprise. The 1950 conference pledge to build 300,000 houses a year.

<sup>617</sup> As expressed by the "One Nation Group" of Conservative MPs in the early-1950s: "to promote a unified prosperous democracy, with management and men working together for an ever improving standard of living and a financial surplus to provide generous help for all those who needed it...strengthening the weak without weakening the strong" (One Nation Group, 1976; Macleod and Maude, 1950; Martin, 1988). This would ensure that Britain would not become more egalitarian, just wealthier.

<sup>618</sup> The Conservatives failed to avert the cutting of the House of Lords veto under the 1949 Parliament Act. This was a major defeat, both given the Conservative depiction of the House of Lords as a constitutional safeguard for the rights of free-born Englishmen, and the domination of Labour in the House of Common (Francis, 1996: 61-63).

<sup>619</sup> After WWII, and especially during the 1951-64 administrations. the Conservative Party contracted the « Santa Claus syndrome », meaning that the Party was gripped by the contradictory tendencies to « avoid terminal decline through the failure to get elected, while at the same time guiding policy along lines compatible with the broad aims of Conservatism: a free-enterprise economy which maintains incentives for individual achievement, the maintenance of the institutions of the state, Church and family, and the defence of the existing social and economic hierarchy » (Jones, 1996: 243).

<sup>620</sup> Part of the Labour and Conservative Party leadership feared that England had been diverted from its true moral nature by industrial materialism. Especially during the Great Depression in the 1930s these factions maintained that "quality" in the sense of political freedom and moral leadership should substitute quantitative materialism in England, so as to allow the nation to return to its true historical character (Wiener, 1981: 111-113, 120, 128-129).

<sup>621</sup> Anti-patriotism was an umbrella term for a diversity of themes, most notably lack of restraint, subversion, unconstitutionality and class violence.

<sup>622</sup> Personal ties between the Conservative Party and a variety of new mass media – e.g. newsreel cinema and radio the popular press – from the 1920s onwards helped to secure the identification of "people democracy" and Conservatives' interpretation of Britishness. The Labour Party clearly was less successful in establishing such ties, both with mainstream and new popular media.

<sup>623</sup> The Bank of England remained a private corporation until 1949. Even after its nationalisation, it retained the right to hire its own staff, deal directly with the prime minister, and take public positions at variance with government policy.

<sup>624</sup> From 1952, Labour favoured compulsory registration of all restrictive agreements, and their calling up for examination in front of a special tribunal. The onus would then be upon the industry concerned to prove that their practices were not against the public interest (Freyer, 1992a: 203). As such, the financial community increasingly retreated into overly "protective", private self-regulation. In the same vein, the threat of nationalisation discouraged a more imaginative approach between banks – or other financial investors – and industrial companies after WWII.

<sup>625</sup> By the 1950s, gas and electricity had been nationalised and hospital government had been regionalised.

<sup>626</sup> Between 1900 and 1918 the rise of new-liberal and Labour ideologies of State centralisation along with the decline of business interest in local government service and fears among Conservatives of socialist municipalisation all conspired to radically change the dual policy ethos. Local government became agents of the

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welfare states rather than autonomous representatives of local interests. By the 1920s, the Labour Party had taken political control of many large city governments at the expense of local Conservative and Liberal politicians. This indirectly led to the ousting of the remaining businessmen, who a generation previously had built city government in the spirit of businessmen's clubs. The loss of interest of businessmen in local government was also caused by the growth of community-transcending, regional or national joint-stock companies and businesses (cf. Dearlove, 1979: 79-105; Montague-Harris, 1939: 36-38).

<sup>627</sup> In 1950, local expenditure comprised no more than 25 per cent of total public outlay on current account, compared with 55 per cent in 1905.

<sup>628</sup> Remarkably, neither in the private nor in the public sector was the function of the roles of trade union leaders and officials different in the 1950s and 1960s from what it had been in the

1920s and 1930s. Clearly, Ernest Bevin – the Minister of Labour in Churchill's WWII coalition government, did change the relation between organized labour and the state, but only temporarily. After WWII, Bevin did not use all the powers which were thrust into his hands, as he – as a typical English labour union leader – was concerned not that the state should take control of the relations between the trade unions and the controllers of capital as it would in a socialist society but, on the contrary, that the unions should be better placed once the war was over to improve the pay and conditions of their members through free collective bargaining of the traditional kind (Runciman, 1993: 61-62).

<sup>629</sup> The method of attaining socialism from a very early stage was agreed to be Nationalisation Acts of Parliament.

<sup>630</sup> “Both [the Labour and Conservative] parties agreed that it was Britain's role to maintain peace, law and stability in the world...Not only did the leaderships and majorities of the two main parties appraise Britain's major national interests in fundamentally similar terms, they also held similar views on maintaining her world role. Whichever party had been in power, the general trends of her postwar policy would probably not have been appreciably different” (Frankel, 1975: 33-34).

<sup>631</sup> Labour usually made the moral, altruistic case for imperialism; the argument based on a nation's duty to the world (Porter, 1968:186).

<sup>632</sup> Many Labour supporters “had been inspired as much by a revulsion from the ugliness and materialism of late nineteenth-century industrial society as by a hatred of poverty and injustice” (Marquand, 1977: 403). So, the Fabians were moralists intent on bringing about a higher, simpler life-style: a “frugal and earnest living”. According to Beatrice Webb, a leading Fabian, the “keynote” of socialism had to be “extreme social asceticism” (cf. Wolfe, 1975: 212). With the decline of both Liberalism and nonconformism, the Church of England - in alliance with the City and the Treasury - asserted itself as an authoritative force in the shaping of a policy beyond the classical antinomies - Right versus Left, and the market - financial versus industrial capitalism, labour against capital - in the first half of the twentieth century.

<sup>633</sup> Partly also as a 'payroll tax' to control what was popularly called 'over-full employment'. All employers would be required to pay a tax of 25 shillings (£1.25) a week for each adult male employee, and smaller sums for women and young people. The tax would be refunded to manufacturing industry, with a bonus on top; while it would be refunded to certain other kinds of industry without a bonus.

<sup>634</sup> E.g. Labour Party Manifesto 1955: “Faced with actual aggression in Korea and the threat of it elsewhere, the Labour Government did not shirk the heavy burden of rearmament. It took the lead in building up the North Atlantic Alliance. We believe that in the absence of all-round disarmament, the democratic powers must be strong and united, and their defensive power sufficient to deter aggression”

<sup>635</sup> The « peak organisations » in Britain, be they trade union or employers' associations through the 1950s and 1960s continued to be unenthusiastic about the whole idea of business schools. At first, Labour's nationalisation programme and its related programme of state-sponsored management programmes shocked many employers and put them on the defensive. From the mid-1950s, other factors became more significant. A long period of Conservative ascendancy calmed business anxieties about state interference, and official policies began to be judged on their merits. However, the management education issue still raised hackles. Some employers feared that measures to « professionalise » managers would make them too independent. They wanted functionaries who could be relied upon to execute company policy, not a nascent « third force » standing between capital and labour...there were judged to be obvious dangers in allowing academics and « theorists » a say in how and what managers should learn...they were purveyors of the very kind of abstract knowledge that was most widely reviled in business circles. For all these reasons, it was judged, organised business would have to act very carefully. The FBI and its allies must operate tactically...The peak organisations achieved the difficult balancing act of moderating American enthusiasms while not deflecting them completely. In a speech of 1970, the president of the Confederation of British Industry (the FBI's successor) was candid about the lack of consensus [about the value of American-style business education] : « Industrialists and academics...do not agree about where British management education is going...The academic world, on the whole, does not want to know about industry's

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needs...objectives are irreconcilable » (The Economist, 21 November 1970). The key point for many was that the required skills and competencies [of a good British manager] could not be learned through formal training. « Character » was most probably innate, though some were prepared to admit that it might be developed at a good private school or Oxbridge college (Tiratsoo, 1988: 366-368).

<sup>636</sup> Other thought leaders, such as the editors of the *New Statesman*, were accused of parochialism because of their warnings about the Americanisation of Britain; “They worry about the U.S. stake in the British economy—now \$3 billion and growing by \$450 million a year. ‘The takeover men are constantly on the lookout for more.’ warned the *New Statesman*’s Francis Williams. ‘American films. American books. American songs shape the pattern of our thinking.’” (“Britain: Sunny Acceptance”, *Time*, 9 June 1961)

<sup>637</sup> The Co-operative movement had vehemently argued against resale price maintenance agreements. While the Final Report of the Greene Committee on Restraint of Trade (1930-1931) concluded that although resale price maintenance was sometimes inconsistent with the public interest, it deemed the problem not significant enough to justify any major change in the law (Freyer, 1992: 214).

<sup>638</sup> One of the only victories it could claim – not for long – was when in 1930, the Co-operative Party secured that the Committee on Restraint of Trade would consider the practice of withholding supplies from alleged price-cutters.

<sup>639</sup> One of the reasons why the policies of Labour and the Co-operative movement were not very aligned, is that the former was trying to get rid of its stigma amongst the lower middle classes. Labour stood for everything that had threatened the middle classes after the war. The point where the labour movement and the lower middle class came into sharpest conflict was over the tax treatment of the Co-operative society, because the shopkeepers felt the co-op was using an essentially bogus claim to be a mutual society to avoid taxation on its profits and so gain an unfair advantage over smaller traders. Certainly, families with any connection to shopkeeping usually had strong feelings about the co-ops (Whiting, 2000: 47).

<sup>640</sup> They also might have tempered Labour’s more centralised, producer dominated forms with some genuine consumer ownership and control, so as to make the nationalised industries and welfare services more efficient, more popular and more politically secure than they turned out to be during the 1980s (Birchall, 1994: 131-132).

<sup>641</sup> The Co-operative movement’s failure to dominate the political agenda in terms of issues around which the nation would rally, became painfully clear after WWII. While the Labour Party in theory had unprecedented possibilities for realising the political agenda of its closest allies, the Trade Unions and the Co-operative movement, these allies did not exercise nearly as much sway over the formulation of post-WWII policies of the business community (Mercer, 1995: 103).

<sup>642</sup> i.e. the practice to fix the price at which retailers may sell through loyalty rebates or withholding supplies from price-cutters through stop-lists.

<sup>643</sup> As noted by Blank (1977: 687), Opie (1968) and Wallace (1975), twice in the postwar period a rival governmental department was created whose primary responsibility was to be domestic economic policy – but not financial

policy. The first was the formation of the Ministry of Economic Affairs in 1947. The second was the foundation of the Department of Economic Affairs in 1964. In both cases, however, the Treasury soon reasserted its control over the entire scope of domestic economic and financial policy.

<sup>644</sup> For instance, during the 1929-1931 Labour government, the Treasury worked assiduously to sabotage proposals for the relief of unemployment. In response to the financial world crisis, the Treasury argued that it was impossible to further increase taxes, as Labour ministers proposed. As a result of this lack of taxation capacity, the Labour government had no other option but to cut unemployment benefits, thus precipitating its own demise. In fact, the permanent officials were joined by business leaders, press leaders, financial institutions, and politicians, most notably Conservative but also some Liberal M.P.s. As if that were not enough, the Labour Chancellor of the Exchequer, Snowden, shared these prejudices. The Labour defeat further disabled the Party’s resolve to deal constructively with the question of how to use the State to intervene in the economy and deal with social problems. Not surprisingly, the Party program remained underdeveloped during the interwar years, and a profound pessimism gripped Labour (Cronin, 1988: 225-226). It thus fell to the Conservatives to effectively run government during the 1930s and make incremental adjustments to meet the economic crisis.

<sup>645</sup> In practice, the “fiscal constitution” entailed several aspects. First, it entailed financial stability for the sake of the stability of not only the City, but also the entire world system, especially in times of world depression such as the 1930s. Second, the Treasury was concerned to preserve the integrity of the tax system as a precondition for political stability and order. For instance, the Treasury was concerned that the repayment of debt should provide funds for industrial investment (Daunton, 2002: 165-166).

<sup>646</sup> In fact, the Labour government policy towards private enterprise not only bore little relation to the views of the mass organisations allied to the Labour Party, but also to the views within its own parliamentary faction.

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<sup>647</sup> For instance, Bevan's plans to nationalise the industrial assurance companies were opposed by the Treasury.

<sup>648</sup> Radcliffe Committee 1958-9, Report: 163-164, cited in Thomas, 2004.

<sup>649</sup> Central banking in the dominions had begun in the 1920s in South Africa and Australia, and had been recommended for India. In the 1930s, as the search for economic stability intensified, central financial institutions in these countries were strengthened; Canada and New Zealand also felt the need for similar bodies. The Bank of England had always wished to shape these institutions in its own image and pressed, with varying degrees of success, for private central banks whose freedom from competition with other banks and independence from government would enable them to manage the money supply on sound principles in a way long taken for granted in Britain (Cain and Hopkins, 2002: 476).

<sup>650</sup> Bank of England president Norman in the interwar period had consistently refused to admit a connection between "fluctuations in the volume of credit and fluctuations in employment", i.e. a connection between Bank policy and unemployment (Kynaston, 2000: 200).

<sup>651</sup> By WWII the triumph of rationalisation did not prevent the increased influence of those promoting competition. Britain's faith in Free Trade was gradually displaced by a new consensus favoring official promotion of business cooperation within large, self-regulating units. Labour supported the new consensus, believing that price stability helped to maintain employment. Small business supported the consensus because it sanctioned the preservation of relative independence through horizontal and vertical restrictive agreements. The managers of large firms such as ICI supported the consensus because it legitimized the corporate economy emerging from the merger wave, without arousing concern about monopolistic abuse. During WWII, however, some pro-competition economists, Labour leaders and Tories became convinced that cartelisation inhibited the attainment of full employment and a free market economy once victory was won. Prominent London newspapers endorsed this argument, and the US pushed the same view in bi-lateral negotiations of major international agreements. By the end of the war a policy compromise emerged which reflected the tension between those favoring government intervention to policy but otherwise allow monopolistic practices and those demanding official action to prevent such restraints. Established in the Monopolies and Restrictive Practices Act of 1948, the compromise reflected the presumption that investigation and publicity were sufficient to prevent abuse (Freyer, 1992: 217).

<sup>652</sup> The quote continues: "The Stock Exchange is indispensable to the National Economy...The Insurance Companies, (Post Office and Trustee Savings Banks), the Building Societies, the Co-operative Societies, the Trade Unions, the Churches, Pension Funds, Charities and Trusts of all descriptions need the Stock Exchange for the investment and realisation of their funds. It is the same with the individual. The Stock Exchange provides no small part of the security behind the pay packet and the salary, the pensions and the savings" (11).

<sup>653</sup> WWII-regulations forbade new issues without Treasury consent. Applications to raise capital were vetted by the Bank, which had authority to permit access to the market to UK borrowers undertaking work in the national interest. Other cases were referred to an advisory body, the Capital Issues Committee, but problematic ones tended to involve the Bank. These controls continued in the immediate post-war years, though they were relaxed in the 1950s and the Capital Issues Committee.

<sup>654</sup> The old republican tradition of voluntarism was still represented by its international/domestic counterparts of "England and Empire" and "Anglican democracy".

<sup>655</sup> Starting with the Aliens Act of 1905 which targeted Jews in particular, and which sought to give Englishmen "protection against foreigners" and "safeguard their duties", Conservatives systematically wielded the anti-national argument to marginalise Labour (e.g. 1928. "What Conservatives have done for British workers", Conservative Political Centre Handbook). Fear for "aliens" culminated in Enoch Powell's calls to halt immigration in the 1960s.

<sup>656</sup> In 1948, while Labour governed the country, the British Nationality Act was passed; this act considered everyone born within Britain's colonies a British citizen.

<sup>657</sup> Labour leaders were keen to support public housing for general needs and for slum clearing, as made concrete in the 1924 Wheatley Act and the 1930 Greenwood Act. However, Labour did not stand firm enough on its feet to continue its efforts in this direction. First, MacDonald's Labour government could not overturn the decision of Law's 1920 Conservative government to restrict subsidies to local authorities that wished to build houses, despite the growing shortage of houses. Nor could they prevent "private" corporations, such as the building societies, from enjoying the same subsidies, even when these latter organisations did not engage in building new houses. Finally, because of Labour's ambivalence, in 1933, only two years after the Labour government had been replaced by MacDonald's Tory-dominated National Government, subsidies to local authorities to build housing for general needs were abolished and the role of public housing confined to slum clearance and rehousing. In doing this, the Conservatives sent a clear message that working-class housing needs should be met by the private sector, not the public sector

<sup>658</sup> Purportedly, civil society in Scotland is fundamentally different from that in England (Nairn, 1977: 132).

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<sup>659</sup> Calls for a distinctive Scottish system of public-private provision have been raised in every century since the union in 1707. Most notably, with regards to the education principle, Scottish leaders of opinion as early as the 1830s argued against English laissez-faire and class-driven educational ideology. Rather, Scots saw the way forward in adapting and modernizing the Scottish tradition of public provision (Anderson, 1983).

<sup>660</sup> Nevertheless, clearing banks' focus on non-price competition only, led them to increase their branches quite impressively, from 9,794 in 1950 to a peak of 12,315 in 1968

<sup>661</sup> With the freeing of the housebuilder from the licensing system, building for sale increased throughout the years to 1960. Over 100,000 were built by private enterprise in 1954 and thereafter the number increased gradually to 170,000 in 1960. By this time the local authorities' total had declined from 239,000 houses in 1952 to 128,000. House prices held steady throughout the 1950s following upon the rapid rise in the 1940s. The total increase from 1950 to 1960 was no more than 10 per cent. In the same period the index of average earnings doubled and this factor made for a ready sale of houses. The raising of rents undoubtedly encouraged families to buy either as sitting tenants or as first-time purchasers of vacant-possession houses. The number of houses in the private-rented sector continued to decline as landlords sold (Ashfort, 1980 : 149).

<sup>662</sup> « This change in the type of investor has been brought about by the growing recognition of this investment in recent decades, by the scope it provided for the use of funds in a satisfactory manner, and by the consistent advocacy of these investments by newspapers and a number of brokers" (Cohen, 1933: 17).

<sup>663</sup> Deposits did not always carry a lower interest rate than shares. In fact, this was only due to phenomenal historical changes in the deposit rate. The rate first declined from 35.8 per cent to 12.8 per cent in 1931. And after a temporary rise to 21.4 per cent in the 1930s, it fell sharply again after 1950 to 6.5 per cent in 1964 (Moreh, 1966: 140, 167-168).

<sup>664</sup> Another factor responsible for the fall in the deposit ratio was the gradual abandonment of the system of issuing shares in fixed units. Under such a system, sums smaller than the unit could not usually be paid into or withdrawn from a share account. Also, interest on shares could not be compounded. Hence many people had to open deposit accounts for one or both of the following purposes 1) payment or withdrawal of small sums, 2) compounding of interest...Only in 1959, the Woolwich Equitable BS, the fourth largest by volume of assets, put an end to the £25 share unit, accepting funds in 'pounds and fractions thereof'. Within 9 months, £1.5 million in respect of some 16,000 balances were transferred from deposit accounts and in general added to existing share accounts, following the introduction of facilities for compounding share interest. The number of deposit accounts thus transformed more than a third of the deposit accounts by number and about 17 per cent by value. The process continued thereafter, though at a reduced price (Moreh, 1966: 138).

<sup>665</sup> "During the past 15 years there has been attracted to the BS movement a more substantial type of investor, whose aggregate holdings in BSs may now tend to rival those of the numerically superior working-class investors. The constitution of membership in BSs has thus been gradually yet inexorably transformed. They can now cater for a much wider public, the substantial investor and the small man alike, and this comprehensive nature of membership now may prove to be a permanent feature in the structure of our own movement" (Baker, 1947: 402).

<sup>666</sup> In 1963, about three-quarters of the 72 largest BSs by size of assets paid 1/4 per cent (net) less on deposits than on ordinary shares, while the remaining one-quarter maintain a differential of 1/2 per cent net. The reason given for the differential is that deposits are safer than shares. As deposits are limited by law to two-thirds of mortgage assets, which themselves are, on the average, less than 85 per cent of total assets, depositors are well secured against losses. Deposits are a prior charge on the assets of a building society. In a year in which losses occur, depositors are paid the interest due to them, while shareholders lose part or the whole of their interest, and even part of their principal. In the case of a winding up, depositors' claims are satisfied before any shareholders are repaid (Ashworth and Stoddart, 1963: 16; Moreh, J. 1966: 104-110).

<sup>667</sup> with Hugh Gaitskell – deputy leader and later leader of the Labour Party – in the chair, and a committee of authoritative Co-operative and retailing experts

<sup>668</sup> Through the 1920s the the yield on Consols and on building society shares ran very much together. After 1931 there was a sharp divergence; building societies become more attractive than Consols. This gave investments in societies a further attraction after 1931.

<sup>669</sup> From the 1930s onwards – the decade in which building societies first grew to prominence, there had been less house repossession. For instance, an Economist survey of the top 108 building societies shows that only 319 houses had been repossessed in 1938 as opposed to 317 for 1935 and 104 for 1925 (The Economist, July 1 1939: 11).

<sup>670</sup> Especially since, as we shall see in the discussion of strategy e, building societies managed to unite the English regions around a common purpose where all other economic, civic or political organisations failed.

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<sup>671</sup> The Co-op registered 28 percent of the population for rationing and sold 23 percent of grocery sales in 1951 (Morelli, 1998: 49).

<sup>672</sup> Only one tenth of the working class made use of the retail co-ops (Whiting, 2000: 48); an even smaller per centage used the banking department.

<sup>673</sup> This is what best distinguishes "progressive" Tories from the Social Democrats whose new party they never crossed over to join (Norton and Aughey, 1981, 66-79; Crewe and Searing, 1988).

<sup>674</sup> «In 1960 the banking system was dominated by the clearing banks, which used the discount market as a home for their surplus funds. The major merchant banks, involved in financing trade, were members of the Accepting Houses' Committee. There was also a group of small merchant banks and some foreign-owned banks registered as companies in the UK, but these only held a small proportion of total bank deposits, and the bank of England did not regard them as important » (Grady and Weale, 1986: 4).

<sup>675</sup> « the monetary policy of the authorities in the period from 1960 to the introduction of competition and credit control in 1971 rested on the assumed dominance of the clearing banks and the discount market in the transmission mechanism...The major feature of the 1960s was, however, the growth of non-clearing banks and rival money markets. (Grady and Weale, 1986: 64-65).

<sup>676</sup> As is generally known, the control mechanism devised by the 'new orthodoxy' hinges on a gentlemen's agreement, backed, probably unnecessarily, by the oft-quoted and never-invoked paragraph 4 (3) of the 1946 Bill of England. By means which are not pertinent to our purpose, the authorities secured an informal understanding from the clearing banks to the effect that no individual bank will let its total 'liquid' assets (cash, call money, and bills), fall below 30 per cent. of its total assets on the average of four months in any month (except fractionally, temporarily, and with good reason). Presumably, this undertaking was sought because the authorities were slightly apprehensive that lower ratios may be chosen in its absence. For obvious reasons, only minima and no maxima were at this stage imposed. Much has been made at various junctures of the current monetary controversy of the fact that, at least since the 1930's, the major London clearing banks were carrying something either side of one-third of their assets in 'liquid' form, supposedly as a means of cushioning their cash reserves from seasonal and other shocks, so that the new orthodoxy merely transformed an established practice into an officially sanctioned rule (Jasay, 1956: 247).

<sup>677</sup> The collapse of the international gold standard turned the pound into a non-metallic currency. Movements of foreign capital on such a currency have the same effects as to those of shifts in the liquidity preference of an unchanged group of resident investors.

<sup>678</sup> Traditionally, the U.S. banks have been very favourably treated by British bank regulators, mainly because of the absence of any formal British bank legislation and the Bank of England's reliance until recently on moral suasion. Indeed, up until the mid-1960s U.S. branches were largely unregulated. All a branch needed to operate legally as a British bank was the tacit permission of the Bank of England, which was nearly always given. Once in business there were no reserve requirements, no interest ceilings, and no formal capital requirements. However, from 1965-71 they were subject to credit ceilings on sterling loans made to British residents. Yet, despite these ceilings, the U.S. banks were still in a very favourable position when compared to the heavy restrictions imposed at that time on the British domestic banks. The giant London Clearing Banks were, for example, subject to two reserve ratios (an 8 percent cash and 28 percent liquid asset ratio) and interest ceilings on deposit and loan base rates, as well as to quantitative and qualitative limits on the size and composition of their sterling loan portfolios. Neither the Clearing banks nor the Bank of England were entirely happy with this situation, the former because they felt aggrieved by the blatant inequities of the then current regulatory structure, and the latter because it felt its grip over monetary policy weakening, as the domestic Clearing banks shrank in size relative to the U.S. and other overseas banks (Goldberg and Saunders, 1980: 639).

<sup>679</sup> Except for the Indian branches, the other banks were run as independent units...Lloyds diluted its overall control of the Continental subsidiary and the Latin American operations, subsequently exercising little control over their activities (Jones, 1993: 50). Barclays made rather more progress than Lloyds. After acquiring banks operating in the West Indies, Egypt and Southern Africa, Barclays merged them into Barclays (DCO) in 1925. This was a new bank which was controlled by the domestic bank, but not wholly owned by it. Unlike the Lloyds group, DCO was a unified entity. There was also a much closer relationship between Barclays and DCO than between Lloyds and its overseas affiliates, with staff transfers between the two banks...Only Barclays, by creating a multiregional overseas bank with real management links to the domestic parent, was able to reap some internalisation advantages. Arguably the main consequence of the entry of British clearing banks into overseas banking was the retention of the substantial and unprofitable British branch networks in regions such as Latin America, the West Indies, parts of colonial Africa and Continental Europe (Jones, 1993: 51). Anglo-South had been absorbed into Lloyds' Latin American interests, but it was clear that Lloyds was unwilling or unable to forge

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its diverse overseas banking empire into a unified multinational banking group. Only Barclays (DCO) had developed as a more integrated organisation...Lloyds allowed itself to continue for decades in a position of ownership without control (Jones, 1993: 184).

<sup>680</sup> The above elements seriously lowered clearing banks' odds of reinventing a working version of voluntarism. Especially since other financial institutions such as overseas banks and building societies – who were not yet considered of central importance in managing monetary flows, were free to change their interest rates and engage in product innovation. As we shall see in the next paragraphs, this allowed especially building societies to attract deposits away from clearing banks, and become the new champions of voluntarism.

<sup>681</sup> As the Committee on the Working of the Monetary System noted in 1959: “The societies...are ‘mutual’ rather than ‘commercial’ in their nature. The word ‘share’ has in this movement a different meaning from ordinary usage in the context of a joint stock company”. The Committee described a building society as “primarily a promoter of thrift and of home ownership”. Only in this regard did they “have social and economic importance” (Committee on the Working of the Monetary System, 1959, Cmnd 827: paras, 285-286).

<sup>682</sup> This is somewhat paradoxical, given that, following the 1962 BSA Act, building societies could “only those things” and “operate only in the manner which is envisaged by legislation”, “unlike most normal corporate bodies which are free to decide their functions and method of operation within the general law of the land” (BSA, 1983: 5).

<sup>683</sup> Other taxes were introduced. The Selective Employment Tax (SET) was a more complicated tax, designed partly as a revenue-raising device, partly to deflect labour from service industries to manufacturing industries, and partly as a ‘payroll tax’ to control what was popularly called ‘over-full employment’. All employers would be required to pay a tax of 25 shillings (£1.25) a week for each adult male employee, and smaller sums for women and young people. The tax would be refunded to manufacturing industry, with a bonus on top; while it would be refunded to certain other kinds of industry without a bonus. By contrast, the new Corporation Tax was designed essentially as a streamlining operation, or a belated recognition of the enormous part played by corporate bodies in modern life. Instead of corporations paying both Income Tax and Profits Tax, the revenue would be collected in the form of a consolidated tax (Douglas, 1999: 134).

<sup>684</sup> During the 1930s larger depositors were not welcome as the societies did not wish to become commercial deposit takers. There was a realisation by the societies that some large commercial depositors were apt to treat deposits with the societies on a short term basis. Several societies, especially the smaller ones, would not accept deposits of a size considered substantial so as to protect against circumstances where the withdrawal might come at a time difficult for them to meet their obligations. The larger societies, however, could afford to take larger deposits, owing to the size of their asset base.

<sup>685</sup> The 2nd November 1954 marked the beginning of a property boom in the UK that was to last almost 20 years. That afternoon, the Conservative Minister of Works announced in the House of Commons that building licenses were to be dropped...Building Societies became big business. For the first time they started setting up many branches.

<sup>686</sup> WWII-expenditure was half met out of taxation, half out of the issuing of Treasury bills – which led to the trebling of the national debt. The clearing banks absorbed such a huge amount of Treasury deposit receipts (TDRs) that by 1945 these government securities constituted by far the largest single item in their assets. The weight of borrowing ensured the government a commanding position with regards to clearing bank assets and rates. As the rates on Treasury bills and Treasury deposit receipts were lowered by the government, so the banks had to lower the maximum rate on all deposit accounts. This did not only curtail competition for deposits. It also diminished the historical differences between banking terms in London and in the country. With government paper amounting to two thirds of their assets, the Bank of England maintained the cash base of the clearing banks at the level required to support the rising volume of deposits, as determined by both government demands and the requirements of the private sector (Wadsworth, 1953: 17-19).

<sup>687</sup> With the steady growth of bank deposits substitutes – such as BS deposits and shares –the clearing banks' share of the economy's liquid assets had dropped from 60 per cent in 1920 to some 42 per cent in 1950 (Nevin and Davis, 1970: 134).

<sup>688</sup> As testified by the President of the Institute of Bankers in 1950: “The tremendous question to which we await the answer at the opening of the second half of the century is whether the majority of the enlarged electorate in whom that power now, for good or ill, permanently resides will exercise it with a full sense of responsibility to the nation as a whole or not...the circumstances of the times, therefore...call more than ever for a concentration of effort on raising the general level of the standard of education of the people, and in particular its awareness of underlying economic realities...the banking community has an important part to play in the economic education of the general public » (Balfour, 1950: 110-111).

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<sup>689</sup> This fear had its origins in the old Conservative mantra that the untimely enfranchisement of the working class « could sweep away property, decorum, the constitution » (McKibbin, 1998: 67).

<sup>690</sup> H.G. Johnson, "Observations on the bank merger proposals", *The Bankers' Magazine*. September 1968: 137.

<sup>691</sup> "The share of the Barclays group assets in overseas banking (only 4% when the modern bank ventured into overseas retail banking in 1919), was already about a quarter by 1945, and rose to 42% by 1970 and even 56% by 1980. This international commitment was exceeded, proportionately if not absolutely, by some smaller, free-standing British overseas banks (like Standard Chartered and the Hongkong & Shanghai Bank), until recently operating largely abroad. Latterly it was also emulated by other British clearing banks and by some foreign banks. Yet, remarkably, the Barclays group in 1980 still had more branches abroad than all American banks added together...Barclays has been one of the leading and truly multinational banks for longer than any rival bank. Barclays Bank DCO (Cominon, Colonial & Overseas) in 1945 was not only the largest British overseas bank, but also, as a stand-alone, the sixth-largest London-based bank (ranking just after the smallest of the 'Big Five' domestic banks). » (Ackrill and Hannah, 2001: 268-269).

<sup>692</sup> Indeed, the only recorded mortgage strikes were in the thirties, while strikes against rent increases were recurrent and fiercer. This is another reason why the building societies movement was popular amongst conservatives.

<sup>693</sup> In 1937 Sir Enoch Hill estimated that since 1919, ten million people had been helped by the building societies to provide accommodation for themselves (The Building Societies Gazette, March 1939: 185).

<sup>694</sup> Building societies had emerged with massive surplus funds from WWII; they were eager to invest these funds in the expansion of home-ownership. Initially, however, the Labour government elected in 1945 held back this potential; it preferred to invest in public housing, for which subsidies to local authorities were increased. With the return to power of the Conservatives in 1951, however, the taxation and licensing conditions for an expansion in owner-occupation would soon become much more favourable.

<sup>695</sup> After WWII, the Labour government had encouraged local authorities to meet the mortgage needs of house purchasers, a tradition building society competence., this made the relations between the Building Societies Association and government less than cordial (Clearly, 1965: 243).

<sup>696</sup> Building Society Gazette, June 1939: 497.

<sup>697</sup> There were many within the parent Barclays bank, including Tuke, its chairman from 1951 to 1962, who viewed overseas ventures with scepticism and doubted if all could become profitable. Yet he did value DCO, and the Goodenough family, in particular, kept the imperial flame alive (Ackrill and Hannah, 2001: 270).

<sup>698</sup> As testified by the President of the Institute of Bankers: "Never, I believe, has our country had to face a more critical situation than that which confronts us today. Not only our position as a great power is at stake, but also the living standards of our people, which depend upon our competitive capacity in a world increasingly industrialised. Intensive education of the people in the economic facts of life is urgently needed, and in these circumstances a new responsibility rests upon the banking profession" (Balfour, 1950: 117).

<sup>699</sup> See also Lloyds Bank Archives, Winton Files, Report of an interview with Lord Runciman, January 24<sup>th</sup>, 1974 (cited in Ross, 1989: 57).

<sup>700</sup> Unusually among the twentieth-century banking families, Barclays' president Seebohm had been actively brought up as a Quaker. More sympathetic to decolonisation (and to left-centre causes in Britain) than most bankers, he was a politically centrist inhabitant of the conservative world of banking, a fitting leader for the overseas bank as it forged a more internationalist and less imperialist future in the 1960s. He oversaw the conversion of the DCO into Barclays Bank International, a wholly owned subsidiary of Barclays, in 1971, passing on the chairmanship of the new bank to another domestic family banker, A.F. Tuke, in 1972 » (Ackrill and Hannah, 2001: 270).

<sup>701</sup> Nevertheless, Barclays' post-war overseas expansion centred on the dominions of the white Commonwealth. (Ackrill and Hannah, 2001: 308-309). This focus, as well as its support for the South African Apartheid regime, would leave it vulnerable for anti-racist democracy campaigns in the 1970s and 1980s.

<sup>702</sup> « Many of the more able young men who before the war would have come to us directly from school now find their way to the universities. The remainder, the report argues, are now below the average in ability and enterprise, which clearly implies that the banks, in depending on recruitment direct from the schools, are now left with only the mediocre or worse » (Balfour, 1950: 114).

<sup>703</sup> This tendency was reinforced by the bifurcation between activists and non-activists that had become noticeable in the Co-operative movement as early as the beginning of the twentieth century. Activists, i.e. those participating in the Co-operative Union's gatherings, were mostly "old-style" Co-operators who had attached to the movement primarily for ideological reasons. By contrast, non-activist members, saw the "Co-op essentially as a shop" and had "no intention of joining in any Co-operative activity"; they were heavily criticised for their "apathy" by the activists. One important reason for this bifurcation was that membership in the movement had become heavily

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biased towards the urban industrial workers and the miners and only included one in four of the professional and business classes. The composition of the Co-operative Boards, on the other hand, was drawn in the main from the descendants of the old skilled artisan class (Ostergaard and Halsey, 1965: 84-85; 100-101).

<sup>704</sup> The necessary monopolization of foreign exchange funds (overseas balances) by the Bank of England made the local Clearing banks more dependent upon the central bank as the only direct source of funds, and tended also to multiply the business contacts that are so important in establishing the central banker's influence. The succession of government deficits during and after the war operated in the same direction. Government debt operations, on the technical side of which the central bankers are inevitably active, became both bigger and more frequent, and the increased weight of government paper in the portfolios of Clearing banks made the latter more sensitive to these operations. Here again, therefore, there was work for the central banker and the opportunity for gaining influence in the wider world of bankers. Rising national debts have thus tended to strengthen central banking throughout the Commonwealth as well as outside it» (Sayers, 1952: xv-xvi).

<sup>705</sup> Arguably, the Bank of England was not helpful in recognizing shifting competitive realities – whether regards the entry of US banks in the London Euromarkets providing cheap money to their headquarters and US multinationals – by preventing the merger between for instance Lloyds and Barclays in 1968 (cf. Jones, 1990).

<sup>706</sup> It has now become clear that accusations by part of the business community and « Marxist-Leftist » academics – a somewhat awkward alliance – that the financial establishment in the City of London was diverting funds away from industry to « unproductive » uses, uttered as early as the end of the nineteenth century in the academic literature were largely unfounded. For instance Tolliday (1988) has argued that a more historicised, actor-centred account of bank-industry relations in twentieth-century England would clearly reveal this. He thereby explicitly pointed to the path-dependent nature of the flawed nature of the relation between banks, industry, and government. Banking and government were both more extensively involved in promoting and shaping industrial reorganisation in the interwar years than is often recognised. Although they were not always successful in achieving their aims, they were crucially important not only in steel but also in cotton textiles, shipping, electricity supply, coal, agriculture, aircraft, oil, armaments and railways... These interventions make up a vital part of the prehistory of developments such as nationalisation, the growth of the mixed economy, and the growing role of financial institutions in industry since WWII. The failure of so many of these attempts highlights [that] Britain's traditional industries were declining because their markets were breaking down, but the institutions that might have had the potential to generate effective reorganisation of the economy had been formed by the same historical developments that had shaped the crisis in which they were intervening (Tolliday, 1987: 169).

<sup>707</sup> The 1930 Macmillan Committee... was created to consider the extent to which the financial institutions were responsible for the parlous state of industry in 1929... Surprisingly, however, the vice-president of the Federation of British Industries, James Lithgoz, commented on this investigation as follows: « there is, to my mind, far too great a tendency both for labour and industry to seek to put the blame on some third party, the popular scapegoat at the moment being the bankers ». (James Lithgow to Walker, March 5 1930. FBI Finance and Industry Committee – Correspondence, Minutes and Related Papers – Modern Records Centre (MRC) CBI Predecessors Archive MSS 200/F/3/E1/3/7). The Bankers Magazine, for its part, noted that « the present committee is a result of a prolonged attack upon the banking system by the Socialists » (Bankers Magazine, January 1930: 8), arguing that « if bankers are to be criticised for their general attitude towards industry during the past ten difficult years, it has been rather that they have been too ready to stand by industry in the matter of banking facilities » (Bankers Magazine, February 1930: 165).

<sup>708</sup> In the 1960s the Bank of England protected the banks from takeover by American banks, yet allowed them to proceed with their various merger schemes at a leisurely pace.

<sup>709</sup> Building societies maintained that they did not receive a preferential tax treatment. For instance, they noted that: « despite the [Building] Association's repeated claim that building societies as bodies which do not work for profit, should not be subject to profits tax, this burden, known in its earlier days as the National Defence Contribution, has been continuously imposed on societies by the Government since 1937 and, indeed, twice increased since the new basis was settled in 1958. ("Building Societies 1961-1962", Building Societies Year Book 1962: 26)].

<sup>710</sup> At the beginning of the 1930s there was no tradition of commercial management, active publicity or keen competition within the movement. Each building society was an independent economic unit responsible for the conduct of its own affairs... According to Bellman (Bellman, 1928: 21): the societies had an 'individualistic approach to business... each society having regard only to what it may be pleased to call its own interest'.

<sup>711</sup> As soon as 1970, the largest five building societies accounted for more than 50% of all building society assets (BSA Bulletin, October 1987).

<sup>712</sup> Building societies' interest rates on deposits tended to lag behind increases in the general level of market interest rates, resulting in a loss of competitiveness and a reduction in inflows to shareholders' accounts. With a

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fall in inflows, the building societies generally employed non-price rationing devices to limit mortgage supply. This caused excess demand for mortgages to run high (Pawley, 1993: 31).

<sup>713</sup> Committee on the Working of the Monetary System, Cmnd 827,1959, Vol XV11, par. 296.

<sup>714</sup> Building societies had interlinking relationships with landowners and builders/developers through common directors. They distributed largesse to local accountants, solicitors, bank managers and surveyors in the form of instructions and commissions on deposits received and clients introduced. It was almost impossible for an outside shareholder or depositor to have any say in the management of the society.

<sup>715</sup> An exception to this rule were the events leading to the Building Societies' Act of 1939. The excesses of the building boom and the unease expressed in Parliament about the close relationship between the builders and the building societies had led to the passing of this Act (The Building Societies Act 1939, 2 and 3 Geo 6, Ch 55). The 1939 Act would regulate matters and put into statute many of the provisions of the Building Societies' Association code of conduct which the societies themselves had been unable to enforce. It also made other changes to the manner in which the societies operated. For example, it became impossible for one solicitor to represent both sides. The common practice was that the building society's solicitor would be used by the society and the buyer and often the seller too, enabling the speedy processing of the building society application forms and the issue of a Land Registry certificate. More importantly the 1939 Act made it very difficult for the societies to accept collateral security, and therefore the builders' 'pool' method of arranging addition security for the purchaser was ended.

<sup>716</sup> Established in 1936, this Council was not solely a builders' organisation; building societies, architects and others were represented on the governing body.

<sup>717</sup> However, as a practical outcome, the surplus put to reserve was taxed at profits, but the dividend remained free of tax. Therefore the crucial component of the co-ops' operations or the working class consumer - the element of forced saving - remained intact"

<sup>718</sup> The Stock Exchange, for instance, decided in 1937 to set up a voluntary fund to help make good future losses sustained by the public at the hands of defaulters.

<sup>719</sup> As such, the Bank was now authorised to carry out all types of foreign exchange business. This, however, would remain a largely symbolic gesture, that would not bear fruit before the 1970s and 1980s, when the Co-operative Bank would issue its own Travellers' Cheques with a world-wide cover (Fairlamb and Ireland, 1981: 202).

<sup>720</sup> "Co-operation Spring Cleaned", The Times; cited in "From Market Research Department. Press Comment on "Independent Commission's Report", *Market Research Department WE/DB/00055/2*, Co-operative Union, 18<sup>th</sup> May, 1958.

<sup>721</sup> A reporter of the Manchester Guardian wrote: "The Co-operative movement has been slipping behind the times...Too many co-op shops wear an appearance of drab mediocrity"( "Reform for Co-ops", Manchester Guardian; cited in "From Market Research Department. Press Comment on "Independent Commission's Report", *Market Research Department WE/DB/00055/2*, Co-operative Union, 18<sup>th</sup> May, 1958).

And according to the News Chronicle: "the Co-operative movement...needs livening up and modernising...In some areas the Co-ops have lost trade by charging too much in order to maintain or increase the dividend...They sell at market prices and treat the dividend as a residual'" ("Co-op needs livening up, says report", News Chronicle; cited in "From Market Research Department. Press Comment on "Independent Commission's Report", *Market Research Department WE/DB/00055/2*, Co-operative Union, 18<sup>th</sup> May, 1958).

<sup>722</sup> For a more comprehensive description of the CWS' bad press and how its model of democratic management failed, see Appendix A, section 11..

## 10 DUTCH FINANCIAL INSTITUTIONS (1966-2007)

### 10.1 Changing geopolitical opportunity structure (phase 1)

In chapter 8 we saw how, in spite of the continued fragmentation of Dutch economic, civic and political life, the interpretive flexibility of “low-cost consociationalism” allowed all rivaling pillars to rally around a common national framework. As early as 1962, the framework was starting to break down. The contradiction between the imperative of wage moderation and the immensely increased competitive powers of Dutch employers were simply becoming too stark. After the ravages of the two world wars, there was talk of a West European Golden Age. Would the Netherlands, prominent supporter of the EEC, live up to its “embarrassment of riches” myth again, as in the seventeenth century? The summer of 1962 saw the start of a long period of large wage hikes and labour unrest which would only come to an end in the early eighties (Van Empel, 1997: 13-14). Employers were increasingly unable to withstand wage pressures; the overheated economy had led to labour shortages, prompting employers to engage in a scramble to woo labour away from each other. Employers even started using “black wages” — under-the-table payments above and beyond official wage guidelines – to attract employees. As a result, real-wage increases an average of about 8 per cent a year in the 1960s. Publicly, bickering continued; privately the consociational elites could not entirely renounce on the old settlement, although the practical will to respect it had all but vanished.

#### *a) Natural gas and the “embarrassment of riches” thesis*

Further contributing to a loss of urgency to the renewal of the old settlement was the discovery of natural gas in 1959, and its exploitation in the 1960s by a public-private partnership - in which the Dutch government held a majoritarian 50 percent share block. The otherwise fortuitous discovery of natural gas proved a severely mixed blessing (Hemerijck, Unger and Visser, 2000: 213), for several unintentional reasons. The appreciation of the currency that followed the gas export boom reduced the profitability of manufacturing and service exports to an extent that total exports decreased markedly relative to Gross Domestic Product (GDP) during the 1960s. The problem of the crowding out of previously competitive export products and services by natural gas proved relatively short-lived. From the late 1960s onwards, exports of goods and services increased from less than 40 per cent of GDP to nearly 60 per cent, a high ratio by international standards (Gylfason, 2001). Less shortlived was the effect of an appreciating currency on fiscal deflation and wage cost growth, which left the Dutch economy in a fragile geopolitical position. Thus, the 1970s oil crises hit the Netherlands particularly hard; gradually laying bare just how much the fundamentals of Dutch post-WWII success had become disrupted. Nevertheless, as with every problem of strategic drift, it only became clear to a majority with a considerable time lag. Growth rates in the Netherlands remained well above the OECD average up to 1975. This in turn fed back into the social-democrats’ rather overbearing attitude during their spell in government with the two other “New Left” parties (1973-7).

As in a replay of the “embarrassment of riches” thesis – the inability of the Dutch Republic to combine newfound wealth and the discipline of its low-cost roots – natural gas exports provided the government with a dysfunctional ability to spend.

Abundant social programmes were launched to compensate for the lack of a tripartite middle ground. Unfortunately, this development added to the wage and inflationary pressures created by the breakdown in consociational bargaining; as well as fuelling unemployment and inactivity levels. And the Dutch currency kept appreciating. All these dynamics together had a dramatic downward effect on the competitiveness of the Dutch economy (Nickell and van Ours, 1999). From 1975 onwards, GDP/capita growth, as well as the level of employment and the balance of payments declined at rates well below the Netherlands' Western European competitors, and in line with the declining economies of Great Britain and Spain (Cox, 1982: 21).

By early 1982, government expenditures stood at a staggering 55 per cent of GDP. Unfortunately, the bulk of these increased government expenditures only fed back into the further break down of the post-WWII settlement. By the mid-1980s, social-security payments alone had reached 20 per cent of GDP. At the same time, for every five people employed, four people were collecting some form of benefit. In a new variety of the embarrassment of riches theme – the decline of the Dutch Republic from the first modern economy into a passive rentier economy, the Netherlands came to experience a “crisis of inactivity” in the 1980s (Hubers and Stephens 2001: 279). More than ever, the Dutch felt the geopolitical weight of being part of a small, open economy; and more than ever they sought to resolve their problems through greater integration in the European Community.

#### *b) A new phase of Europeanisation*

As early as the mid-1960s, the six EEC members had created plans for greater economic and monetary union. These plans have to be seen on the background of major achievements by the EEC in the 1960s: the early completion of the transition period leading to a full customs union, the establishment of the common agricultural policy and the creation of a system of EEC-specific resources. The fact that this was still a time of great prosperity in Western Europe speaks to the strategic character of the plans, contrary to the UK government's crisis-ridden approach to Community membership and monetary union. Obviously, the UK government held a trump card the others did not possess: the attractiveness of the City of London as an alternative path to international relevance. EEC members such as the Netherlands were under no illusion that their own city-states would be able to become primary centres of international finance. By default of a homegrown alternative, they sought to build a common geopolitical platform to tackle impending changes – the Bretton Woods system, in particular its main patron the US, exhibited severe signs of fatigue. In 1969, the six EEC heads of government agreed to the creation, in stages, of an economic and monetary union within the Community.<sup>723</sup> Economically, there seemed to be sufficient commonality of purpose between the EEC members as to monetary union: deepen the internal market so as to contribute to higher economic growth. Politically, differences reigned supreme.

These differences were in danger of creating irreparable havoc for the European Community in the early 1980s, when the slow demise of the Iron Curtain ushered in a more problematic, contested phase of Europeanisation. Well before the official Cold War détente and the coming to prominence of Gorbachev's glasnost and perestroika, the reference point in security debates had started to change. Up to the early 1980s, discussions of security had taken place in an East-West framework, pre-empting any overt contestation of the meaning of Europe – contestation of the meaning of Europe effectively had been relegated to a secondary concern during the Cold War. With the threat of a

nuclear war receding, the more symbolic war over the meaning of Europe could start anew. For the French, Germans, Russians and North Americans, the codeword Europe signified different geopolitical characteristics, boundaries and values (Jahn et al. 1987; Waever, 1989, 1990). The contrast between French and German approaches of course was of special importance within the EC. In short, while the French are more interested in the outer geopolitical influence of Europe, Germany is keener on the growth of German influence within Europe. In other words, for the German establishment, the big issue on Europe is whether relationships in the region can be changed so that their country could unfold as a nation, civilisation and economy with less hindrance from the East-West division or other political borders. For the French establishment, by contrast, Europe is about France using regional political structures to regain its civilisation mission and economic leadership in the world (cfr. Schubert, 1988). Somewhat reducing complexity, the Russians were not able to push their concept of Europe as an “Open House” faced with the strategic priority of providing stability to the foundering Soviet empire. But further complicating the issue of “what Europeanisation”, American interventionism in the project was becoming more forceful, although more constructive to for instance the issue of German reunification than the British with their “balance of power” approach.

*c) A new phase of Americanisation*

Yet, there was more to new-style US interventionism. Before the early 1980s, before it had become clear the Cold War had effectively if not formally been won, the US government had remained aloof about its geopolitical agenda of “liberalisation” and “regulatory capitalism”. It did not want to risk destabilise its European, Arab, Asian or African allies. By the mid-1980s, fears of instability caused by a zealous US foreign policy were disappearing fast. More confidently than in the first post-WWII decades, foreign policy would become the shield of US traditions of democratisation. Starting with the new conservative movement in the late 1970s and Reagan’s coming into power in the 1980s, establishing the US’ “Empire of Liberty” destiny became a conscious policy choice. This transition was similar, but altogether less contested than the Victorian establishment’s turn from a logic of “empire acquired through fit-of-absentmindedness” to one of a conscious choice to civilise other people. During the 1980s and 1990s, the US government relentlessly pushed for more externally imposed “liberal” democratic prescription and attempts to replace States by a-political regulatory bodies (Schmitz, 1995). This “end of history” doctrine of liberal capitalism – which in effect meant regulatory capitalism (Cook et al., 2004; Jordana and Levi-Faur, 2004; Majone, 1994, 1997; Manzetti, 2000) – became known as the Washington consensus.<sup>724</sup> It was given shape among others through the system of sound finance propagated by the IMF and World Bank – two such purportedly “a-political” regulatory bodies.

In terms of a specific tradition of democratisation, US regulatory capitalism most clearly embodied the “Council of Wise” tradition. This US tradition has its origins in the constitutional founding fathers’ distrust of the “inflationary” instincts of the masses and their belief that popular participation in government had increased to such an extent as to be incompatible with free government (Dietz and Hamilton, 1960: 131). In order to provide the disciplined propertied classes with constitutional safeguards against the irrationality of the masses, the founding fathers ensured a central place in the democratic system for institutions governed by a “council of wise men” – in their own image. A council in which American leaders of the revolution “grouped themselves with Theseus and Moses, Lycurgus and Romulus as founders of a ‘new order of the ages’” (Pocock,

1988: 56). The most notable US examples of this “Council of Wise” traditions are the Supreme Court and the Federal Reserve – which was explicitly modelled on the Supreme Court. These institutions historically have been perceived by US citizens as “essential to the preservation of their liberties” (Burns, 1979: 381-382) and the fight against corruption.

How would the Dutch tackle all the above problems, and adapt to a more confident US imperialism as well as a more contested phase of Europeanisation?

## 10.2 First strategic interactions (phase 2)

### *i) The emergence of a national consciousness*

Apart from geopolitical and economic inflationary reasons, low-cost consociational system broke down due to an altogether different type of inflation: an inflation of Catholic and social-democrat expectations. During the heydays of consociationalism, roughly the 1920s to 1960s, elites had legitimised the hierarchical nature of the system by referring to the need of community and how each individual should act from a sense of duty (Te Velde, 1993 : 275). By the 1960s, most people had been inculcated with this sense of duty, allowing them to move on to the next level: individualisation and the quest for new rights. As such, one could well brand consociationalism a platform for the emergence of traditions of contestability and mobility in the habits of the majority, preparing more and more individuals for a less duty-bound application of their electoral choices. In sum, consociationalism, rather unintentionally, functioned as the stepping stone to a vigorous system of parliamentary democracy. Arguably, the discovery of natural gas sped up the entire process. After all, democratisation also entails the trading of property for political rights; the newfound gas riches allowed the government to subsidise this trade-off. Eager to re-open their case for a “breakthrough” of societal divisions, the social-democrats in particular were in favour of that last point.

Some may have anticipated that consociationalism would produce a level-playing field for a more sophisticated democratic rivalry. What few had anticipated is that this level-playing field would be used to revive the social-democratic dream of a breakthrough. What even fewer had anticipated is that this social-democratic breakthrough for the first time in Dutch history would produce a national consciousness; an Orangism which was based more on allegiance to a unitary nation-state than on local allegiances and privileges; and this, without relying on the threat of foreign invasion or war. Finally, what none could have predicted is that Catholics, long sufferers of a minority complex in this nation with protestant overtones, would be the ones to open up the Pandora box of national consciousness – by virtue of greater individualisation and dissent in their own ranks than in the Protestant pillar. Nevertheless, the Orangism that finally emerged would be neither overtly Protestant nor Catholic in nature. Instead it would take on the “secular Christian” character anticipated by 1930s social-democrats, not because the latter actively pushed for it, but because it fitted so opportunely in an emerging European tradition of “secular Christianity”.

### *ii) Catholics*

By the 1960s, the old antagonisms between Catholics and Protestants, confessional groups and social-democrats were on the wane. Especially the former antagonism was fast becoming an issue for a minority of die-hards only (Duffhues and Felling, 1984). The demise of the old antagonisms spurred the left-wing of the Catholic Party and the fewer

radicalised representatives of the Reformed Protestant parties on to push for closer contacts with the social-democrats – who had been out of government since 1959. This “New Left” alliance had the support of both the Catholic and social-democratic trade unions, but not their Protestant counterpart. When social-democrats were invited back in power in 1965, the New Left alliance piled pressure on the Catholic minister Schmelzer to introduce more ambitious government subsidies and public services. Schmelzer’s inability to deal with this new type of pressure precipitated a radical turn in Dutch Catholic, and indeed, Dutch parliamentary history. Historically, the Catholic Party had always tried to avoid disruptive political actions. The “Night of Schmelzer” (1966), which led to the fall of the Cabinet-Cals, broke that tradition most forcefully. Never before had the Catholic Party been seen to be responsible for the collapse of a government under the leadership of one of their own party members. This unprecedented sign of division at the top of the Catholic hierarchy was merely a reflection of the emergence of an altogether more serious grassroots division: a division between capital and labour. Growing discontent about the proposed scale of deficit financing amongst Catholic employers, small businessmen, and farmers (Bakvis, 1981: 138) induced Schmelzer to take sides against the left-wing of the party.

The Night of Schmelzer effectively ushered in the breakdown of the consociational system. Its destabilising effects rapidly became clear in electoral terms. While the Catholic party (KVP) in 1963 could count on 84 per cent of the Catholic vote, in 1967 its share had dropped to 63 per cent. By 1972 it was down to a staggering 38 per cent (Bakvis, 1981: 133).

Prior to the Night of Schmelzer, the Catholic party had been the forum in which the major socio-economic interests – employers, workers, SMEs and farmers – could resolve their differences. This was no longer the case from 1967 onwards. While there was no open rupture between the Catholic Party (KVP) and Labour Union (NKV), relations became distinctly cooler after the 1966 cabinet crisis. While the NKV and Protestant trade union were moving in the direction of a merger or federation with the socialist NVV – patronised by the PVDA, the KVP was moving in the direction of a merger with the protestant parties ARP and CHU – parties by and large positioned right of centre. This tug-of-war enabled the social-democratic PVDA to attract parliamentary candidates from NKV-affiliated associations, while the KVP found it increasingly difficult to attract representatives from the NKV. In 1968, the disciplinary link between party (KVP) and trade union (NKV) had become so loose, that the Catholic Union leader P.J.J. Mertens could openly argue that an elite of 200 people, a Regent club concentrated in the Hague, Amsterdam and Rotterdam, monopolised power in the Netherlands (Helmens et al, 1975). In 1970, the relation between KVP and NKV further deteriorated, when the latter, in conjunction with Protestant Labour temporarily withdraw from the Social-Economic Council, in protest against a wage act that attempted to restore wage moderation. By 1976, communication between Catholic Labour and Catholic Party had become extremely poor. To the point that some KVP leaders openly claimed that it “was no longer possible to talk rationally with many of the NKV leaders” (cited in Bakvis, 1981: 141). Finally, at the end of the 1970s, the catholic and social-democratic unions merged in the FNV (Federatie Nederlandse Vakbeweging), the largest trade union federation in the Netherlands – representing some 1.2 million employees members compared to the 360,000 of the Protestant trade union (CNV) and the Federation of White-Collar Staff (MHP) with 160,000.<sup>725</sup>

### *iii) Social-democrats*

Out of government since 1959, social-democrats had quietly re-adopted their assumption that Dutch society was gradually moving into a socialist direction. A renewed faith in historical determinism spurred social-democrats to abandon their prior, explicit focus on socialisation in favour of the less glamorous, but more strategic emphasis on the conquest of political power. The new goal was to speed up State intervention and the realisation of a socialist Netherlands (Lier, 1982). When social-democrats returned to the coalition in 1965, they relentlessly pushed for even more generous welfare provisions, seeking closer relations with the Catholic Labour Union (NKV) in the process. Whether they intended to or not, social-democrats' closeness to the NKV shattered the cohesion of the Catholic Party, triggering the fateful "Night of Schmelzer" (1966).

Social-democrats and some Catholics started calling for the end of the "undemocratic" system of pillars and the start of a new era of pluralism and direct "democratic" justification (Dudink, 1997: 276)<sup>726</sup>. Their calls could not have come at a more propitious time. Buttressed by unprecedented levels of economic growth, successive governments allowed for a multiplication of welfare state provisions – including state-directed schemes of income maintenance and a wide array of administrative provisions for the management of social conflict. All these provisions were fast making individual households less dependent on churches, unions, extended family and other consociational facilities, contributing to the erosion of the system.<sup>727</sup> The Netherlands was moving to an era of "post-material" and "post-religious" politics in an accelerated tempo. Feeling that it could not keep abreast with dynamics of secularisation (see Appendix C), even the Dutch Catholic Church started changing its attitude towards social, economic and political questions (Windmuller, 1969: 126-127)<sup>728</sup>, providing a degree of legitimacy to calls for more choice between rights, and less obedience to pre-ordained duties.

The breakdown of the consociational system spawned new political parties, most notably D'66 – the "New Liberals" – and PPR – the self-proclaimed "New Left". These parties sought to share the spoils of the social-democratic dream of a national breakthrough. The Dutch electoral system of proportional representation provided a very low electoral threshold for new political movements seeking parliamentary representation, allowing the latter two parties to enter the Second Chamber with no further ado. With a fresher agenda than their social-democratic counterparts, the D'66 and PPR reflected on issues befitting an age of post-material politics. In alliance with these two fringe parties, the social-democratic PvdA introduced several new terms in mainstream political parlance. A new altogether more secular trinity of terms was launched. The new secular religion was to be full of secular participation, politicisation and polarisation (Daalder, 1990: 241-242). "Participation" meant "speaking up against authority", whether based on function, competence or tradition. The term "politicisation", for its part, was used in two different senses, which surprisingly were both positive. It was meant as a rallying cry, to denote that everything was potentially political, and that individual expression should not be held back by existing legal, customary, moral, organisational, family, or denominational boundaries. But the term "politicisation" also alluded to the purported collective desire to break with consociational practices of passive democratisation. Indeed, according to some consociationalism had reached the "furthest borders of what is admissible in a non-authoritarian state".<sup>729</sup> To do away with bad consociational habits – keeping a lid on conflicts and avoiding real choices in the process – social-liberals proposed a strategy of

“polarisation”. The cosy consociational club of politicians and businessmen had to be disciplined, and confronted with the need for bold and clear political alternatives.

By the early 1970s, few people in authority contested the argument that the old consociational elites had definitively lost the God-given right to define political issues and communal boundaries. Secularisation, and the emergence of new political parties in a more polarised democratic system, ensured this (Gladdish, 1991: 50).<sup>730</sup> The summit of the era of 3P’s – participation, politicisation, and polarisation – came with the social-democratic cabinet Den Uyl (1973-1977) and its motto: the “equal distribution of knowledge, income and power”. With Den Uyl, the shift from esoteric to exoteric politics was completed – redefining the role of Prime Minister and party leaders in the process. Before 1971, Dutch Prime Ministers were not the party leaders, served a maximum of one term and were regarded as rather disposable by their party. Starting in 1971, election campaigns were held much more from a prime-ministerial vantage point. The subsequent Prime Ministers Den Uyl (social-democratic PvdA), van Agt (confessional CDA) and Lubbers (CDA) were true *primi inter pares* in their party; and they all served two terms. Also, parliament increasingly became a “workshop for professionals” able to withstand public scrutiny (Fennema and Schijf, 1984: 16).<sup>731</sup>

In 1977, the Dutch social-democratic party (PvdA) substituted the principle of voluntarism for its old doctrines of “historical determinism” and “institutional socialism”<sup>732</sup>. Based on a new individualism, the 1977 program led the social-democrats to make abstraction of the particularities of Dutch history, in favour of a vision of a new society in which each individual would have equal opportunities. Post-materialist values dominated the 1977 agenda to the detriment of the old class strife: the Third World, the environment, the position of women, and democratisation (Tromp, 2002: 363-364).

#### *iv) Merger into one Christian-Democratic Party*

As early as the late 19<sup>th</sup> century, Protestant leaders such as Kuyper realised that turning the Netherlands into a truly Christian nation and the Dutch State in an instrument of God-given justice was an impossible dream. Thus, Protestants settled for the principle of “sovereignty in the own circle”, and a negative view of State intervention. Catholics did share Protestants’ predilection for the principle of “sovereignty in the own circle”; yet Vaticanum II had emboldened them to push for a stronger State also.<sup>733</sup> This dual perspective gave Dutch Catholics an edge over Protestants from the late 1930s onwards, allowing them to champion the mixed principle of subsidiarity after WWII. Because this principle fit so well in the emerging confederation of the EEC, it enabled Catholics to consolidate the constituent Dutch traditions of subsidiarity – pacification, living-together-apart and proportionality – at the “European State” level. This provided the Dutch with a geopolitical buffer against US attempts to “liberalise” European markets with their own anti-cartel and big business principles. In sum, Dutch Catholic leaders eclipsed Protestant leaders when it came to the traditions of pacification, living-together-apart and proportionality. Even regarding the tradition of Orangist democracy the Catholics were gaining the upper hand. Their principle of personalism provided an effective buffer between the contradictory demands of individualisation and loyalty to the own pillar. “City monetarism” was the only tradition Protestants managed to shield from Catholic encroachment. Presidents of the Dutch Bank were all Protestants. Interestingly, it is also in this domain that one could find the most innovative, unorthodox Protestants such as Jelle Zijlstra. Zijlstra was the one who first urged a return to principles of “sound finance” when

he became interim Minister President in 1966, and President of the Dutch Bank from 1967 to 1982.

Yet, were differences between Protestant and Catholic convictions still relevant in a country that was secularising at an alarming pace? Where in 1956 less than 25 % of the Dutch population was not confessionally affiliated, in 1980 this figure had dramatically risen to 50 percent and in 1995 even to about 60 percent.<sup>734</sup> This element, and several others made a merger between the Protestant and Catholic parties only a matter of time. One other element was that in face of the de facto institutionalisation of an important role for the Dutch State, Protestants meanwhile had softened their views on State-led distributive justice (Klink, 1990: 337). Also, the alienation of the Catholic trade union from the Catholic Party in effect meant that grassroots left-wing pressures in the latter had all but vanished; making a common centre-right programme with Protestants a distinct possibility.<sup>735</sup>

In a replay of the end of the nineteenth century confessional front, Catholics and Protestants joined forces against both liberal and socialist excesses. In their new capacity of Christian-democrats, they blamed socialists for the “inflation” of the welfare state and its corollary of dependence. This was a rather obvious reaction against the rising levels of government expenditures during the reign of the social-democratic Den Uyl.<sup>736</sup> More farsighted were Christian-Democrats’ attacks against liberalism – in a period in which Dutch liberals arguably were still very weak. In a nutshell, Christian-democrats blamed both domestic and foreign liberals for the advent of individualism and consumerism, and the disintegration of “group discipline” and a “restrained lifestyle” – core ingredients of the post-WWII Golden Age. Christian democrats corroborated the argument first made by Lord Kahn, that the international wage explosion could be traced back to the Netherlands with the entry in 1959 of the Liberal party into the coalition government. This facilitated a breakdown in Dutch statutory prices and income policies, which had operated so successfully since the end of WWII.<sup>737</sup> Generally speaking, the increase of wage-rates into double figures, together with the import of US dollar inflation, led to a general “free riding” mentality in the Netherlands (Bosman et al., 1976: 34).

To restate their position in the political field, the three main confessional parties, the Catholic KVP and the Protestant CHU and ARP, merged in one confessional party, the Christian-Democratic CDA. In order to formulate a viable alternative to either a socialist or liberal national identity, Christian-Democrats stopped whining about “de-pillarisation” and secularisation, and started emphasising the virtues of “self-reliance, speaking up for oneself and privacy”. Essentially, they reinvented Catholics’ “personalism” principle in a more modern guise. Also, and surprisingly given their historical distrust of the democratic capacities of the masses, Christian-Democrats were keen to reinforce the controlling function of parliament and re-establishing the “democratic quality” of intermediary public-private vehicles such as housing associations, as a precondition for a “responsible society”.<sup>738</sup> “Solidarity”, “public justice”, “sustainability”, and “decentralised responsibility” were the biblical principles that Christian-Democrats launched during the 1980s and 1990s. Christian-democrats conceptualisation of the State had become very republican: the State should be the main vehicle of public justice, setting the conditions that will allow people and their organisations to take their responsibility according to norms of sustainability and solidarity (Klink, 1990: 336-337).

v) *Survival of consociational traditions without the formal consociational system*

All in all, social-democratic polarisation, and the adversarial atmosphere between State, employers and trade unions, was in large part an opportunity for public fronting (cf. Hendriks, 2004). Old consociational contacts at the top were never completely severed, even when industrial conflicts almost turned into war in 1977. Representatives of capital, labour and government still met each other within a small circle of elites behind closed doors. With the evident complicity of the press, meetings were kept secret and outcomes confidential; especially the social-democratic would not understand the continuation of this “consociational club” atmosphere (Van Bottenburg, 1995: 183-185).

In sum, all in all the episode of polarisation, politicisation and participation during the 1970s was a “temporary aberration”, brought about revived hopes, particularly within the Labour Party, but also the Liberal Party, of capturing a majority of voters and changing the Netherlands’ national identity for good. When the dust settled on these “end of history” pretensions, the Social Democrats were quick to abandon their majoritarian strategy in favour of more traditional, quasi-consociational practices. Social-democrats came to the conclusion which Christian-Democrats had accepted much earlier: the Netherlands is a country of minorities which entertain no hope of becoming majorities (Andeweg and Irwin, 2002: 42).

In a sign of things to come, already after 1971, and certainly from 1977 onwards, the core electorate of the three traditional parties – social-democratic, catholic and protestant – had stabilised (Thomassen and Van Deth, 1989: 63).<sup>739</sup> This stabilisation occurred for economic reasons – the rapidly deteriorating performance of the Dutch economy; but also due to an underlying shift in the nature of electoral politics. Politics increasingly was a matter of high-profile competition between candidates to the position of Prime Minister. The fringe parties could not aspire to such a position, particularly after tying their fate to the larger PvdA in the early 1970s. In the second half of the 1970s, D’66 and PPR became increasingly marginalised in the battle between Joop den Uyl – leader of the social-democrats (PvdA) – and Dries van Agt – leader of the newly formed Christian-Democratic Party (CDA).

Before the 1980s, social-democrats had promoted a vision of the State as a body dedicated to limiting the excesses of capitalism and individualisation; an institution whose mission was to, on the one hand, subordinate profits to societal needs, and, on the other hand, subordinate individualism to community. In the 1980s, however, the social-democratic party (PvdA) repositioned itself, so as to take more into account “structural international developments” beyond domestic or even European influence. Given the international nature of market interdependencies, Party leaders argued, it was no longer desirable nor possible to depreciate “the market economy” and the liberal motto of “market discipline”. From now on, what counted most – even more than capital-labour antagonism – was success in surviving international competition. This represented a volte face from earlier positions. Dutch social-democrats now effectively considered free enterprise and market discipline as sounder allocation mechanisms of economic growth than an interventionist State. The State from now on should intervene in a more selective way, and prioritise the self-organising capacities of citizens, local governments and organisations. As such, market democratisation would be turned into a more “social” force, i.e. a force accessible to the population at large rather than to a self-selecting elite. Furthermore, a

thorough “sanitation” of State bureaucracy in conjunction with an ambitious decentralisation of initiative were in order (cf. Kok, 1988 : 40-43; 92-93).

Why did the social-democrat leadership feel compelled to make such a humiliating volte face? In spite of relatively successful electoral outcomes, the PvdA failed to continue in government in 1977, due to the alliance between the newly found Christian Democratic party (CDA) and the Liberal party (VVD). Shorn of its left wing, the CDA was prepared to countenance a less collectivist approach to socio-economic issues (Gladdish, 1991 : 66). Since the confessionals historically provided the switchpoints of popular opinion in the Netherlands, this put the social-democratic line of reasoning in a vulnerable position. Especially since the the Liberal Party (VVD) leadership had radicalised its policies considerably during the 1970s. Leaders such as Bolkestein (1978) riled against Den Uyl’s “state-absolutism” which posed an immediate threat to not just basic civic freedoms, employment and business profits but the entire democratic system. Clearly, the Liberal Party (VVD) had finally thrown off “the shackles” of corporatist “political correctness”, and yet again was willing to embrace the “liberal tradition” – interpreted as a “secular right” political position in the Netherlands.

While social-democrats succeeded in regaining power in 1981, they may well have wished they did not. In comparative perspective, the 1981-1983 recession hit the Netherlands particularly severely. Many economic sectors suffered from overcapacity, firms ran into debts, and one of every 25 firms in manufacturing went bankrupt (Visser and Hemerijck, 1997: 13).<sup>740</sup> Faced with such overwhelming evidence, the majority of the electorate did not believe in State communitarianism anymore. Electoral shifts towards the Christian and liberal parties, as well as a decline of union power made this abundantly clear (Van Zweden, 1986; Albeda, 1986). Within the social-democratic party, prominent leaders distanced themselves from the polarisation strategy that had failed to materialise in government participation in 1977 (Daalder, 1990: 248). The coalitional nature of the Dutch political system eventually compelled the PvdA to become more of a centre-left than left party, if it were to have a decent chance to be invited in a government coalition again with the pivotal CDA. During the 1989 electoral campaign, Wim Kok, party leader of the PvdA and ex-president of the Federation of Trade Unions, told the electorate that his party had said goodbye to its historical “socialist” pretensions. Kok argued that the appeal of the “liberal tradition” had become so obvious that there was no realistic alternative anymore but to strive for a pragmatic coalition with the more right-wing parties. In 1995, Kok officially proceeded to casting off “the ideological feathers of the past”.

Fortunately for social-democrat politicians and union leaders, they had helped keep consociational traditions alive during their heydays in the 1970s – although privately and rather secretly. This explains why social-democrats already in the 1980s were accepted back in government by liberals and Christian-Democrats, be it as junior partners in a first phase. Also, employers and the government accepted to keep the unions as a bargaining partner. But now that the Labour Foundation and Social-Economic Council had lost much authority, what “a-political” authority would help mediate new rounds of bargaining and reinvent the consociational success formula?

***vi) Revival of the Central Planning Bureau (CPB)***

The experts of the Central Planning Bureau (CPB) would take up that role (Becker 2001a: 477). The CPB had been established alongside the Labour Foundation and Social-Economic Council in the early post-WWII years to embody the most important rule of the consociational game: de-politicisation. Of these three institutions of

labour/business/government collaboration, the CPB arguably exemplified most the ability to make policy on the basis of a-political scientific measures. While this ability was enshrined much more in US traditions of democratisation than in any Western European tradition (Ezrahi, 1990), it was pragmatically adopted by Dutchmen to institute a much needed common ground in their politically and religiously segmented country. Dutch consociational leaders used the CPB, Labour Foundation and Social-Economic Council to avert the worst dangers of mass parliamentary democracy, and continue old traditions of elitism and soft authoritarianism (Lijphart 1968: 135, 147-156).

Formally part of the Ministry of Economic Affairs, the independence of CPB advice is guaranteed by protocol (Hendriks, 2005).<sup>741</sup> By the late 1980s, the authority of the CPB in the Netherlands had taken mythical proportions. Apparently, whenever the CPB publishes economic figures, politicians, capital and labour representatives, as well as the media and private advisory agencies held their breath (Klamerm 1990: 17). Product of social-democratic imagination, the CPB's position had not always been undisputed during the Cold War era. Yet, while the period of polarisation, participation and politicisation caused the Labour Foundation and Social Economic Council to suffer a secular decline of authority from which they would never really recover, the CPB proved a more resilient vehicle. Maybe because it had remained more low-profile, its authority was less undermined in the same period, allowing it to reinvent itself as the main vehicle of de-politicisation in the 1980s. By the 1990s, the CPB had become the eminent "expert authority" in the Netherlands (Van den Boogaard, 2000: 295-300). Compared to other Western European countries, the CPB enjoyed incomparable authority, which again exceptionally, it did not have to share with other scientific advisory bodies in the socio-economic field.

#### *vii) Dutch Bank*

Dutch monetary policy after WWII had tended to be passive. In times of inflation, monetary growth generally accommodated increased government expenditures and rising wage demands. All the same, in times of economic depression, the Dutch bank – with its Keynesian policy of "neutrality",<sup>742</sup> – did not attempt to spur economic activity through monetary expansion. After suffering a particularly rough patch in the 1970s and early 1980s – prompting macro-economic labels of a "Dutch disease" – goodwill for a European-wide monetary policy soared. In particular given the resonance of the Christian-Democratic argument that Dutch inflation had "largely been imported, especially through European commercial and central banks putting in domestic circulation a large amount of overvalued US dollars from 1951 to 1973" (Bosman et al., 1976: 11, 13-17, 34). When former Minister of Finance Wim Duisenberg became President of the Dutch Bank in 1982, he linked the Dutch guilder to the German Deutsche Mark. As this move engendered positive effects early on – owing to the strength of the German currency – Duisenberg became even more zealous in his bandwagon behaviour. Most notably, he decided to closely follow the Bundesbank's interest rate policies, earning him the nickname "Mr Fifteen Minutes". Ultimately, this copy-cat behaviour earned the Duisenberg his 1998 appointment as the first president of the new European Central Bank in Frankfurt.<sup>743</sup>

In terms of its role as a banking supervisor, the Dutch Bank felt the sting of polarisation. In 1968, the Catholic Union leader – and ex-leader of the Co-operative Central Bank, Mertens claimed that an elite of 200 people monopolised power in the Netherlands (Helmert et al, 1975). A spate of large-scale bank mergers led to a fear that banks had too much market power and were exposing themselves to an unacceptably wide range of risks. Thus, starting in 1971 the Dutch Bank put out a number of unofficial

directives prohibiting mergers of general banks with insurance companies or mortgage banks, restricting bank participation in the equity of other companies (financial or nonfinancial) to 5% without explicit permission from the Dutch Bank, and limiting the value of share stakes held by banks to 60% of their capital.<sup>744</sup> Regarding the management of Eurodollar markets, the Dutch Bank held on to its post-WWII regulatory position of treating foreign and domestic institutions on a par – contrary to for instance the Bank of England.

Finally, the President of the Dutch Bank, Zijlstra, rather unsurprisingly supported the employer organisations during the period of polarisation, earning it praise from the latter, and lots of antagonism from the trade unions.<sup>745</sup> Nevertheless, the Dutch Bank was vindicated in the 1980s, when an employer-led variation on the low-cost consociationalism theme resurfaced.

#### *viii) Resurgence of “Conservative” Orangism*

The nineteenth century Conservatives distinguished themselves by being fierce supporters of Orangism and imperial protectionism in a country which had lost its old identity – the mighty Dutch Republic, and struggled to find its bearings in a changing geopolitical constellation. As predicted by Rudy Andeweg (2000: 709), in a country where opposition politics had been smothered by renewed consociational consensus practices, it was only a matter of time before the population would react against this new version of “Regent capitalism”; particularly given the earlier rise of populist movements against political clientelism and elitist corruption in countries with similar characteristics such as Belgium and Austria. Less than a year after Andeweg’s article was published, in the wake of the September 2001 New York attacks, the populist and recently converted Orangist Pim Fortuyn started his campaign against ivory tower Regent politics, against meaningless liberal capitalism, and in favour of a renewal of direct representative politics – conducive to a renewal of local traditions. Fortuyn particularly targeted the silence of the “left Church” in the Netherlands about the issue of Muslim immigration.<sup>746</sup>

After the murder of Fortuyn<sup>747</sup> in the 2002 elections – by an ecological radical – the rather apposite Christian-Democrat Balkenende became Prime Minister. A throwback to the era of weak Prime Ministers, Balkenende, as the various political spin-offs of the Fortuyn movement, responded to the democratic crisis with variations on Fortuyn’s own template. For instance, in 2005 Balkenende made a plea for a greater sense of national unity – in language, shared values, and in “shared pride” about the country. He declared there was “nothing wrong with orange sentiment”. Even the social-liberal D66 minister of economic affairs Brinkhorst (2005) urged his fellow citizens to overcome their “Embarrassment of Pride” – a quip to the Golden Age’s purported “Embarrassment of Riches” – and to think about a “renewed and recognisable” identity as a condition for integrating newcomers. While this neo-patriotic turn may have looked like a striking departure from Dutch precedent, it was not. Not only did nationalist discourse remain muted. Rather than ideological, at the end of day it served no more than the pragmatic purpose of preserving local privileges and customs; in particular the tradition of living-together-apart. Thus, in good Christian Democratic fashion, Balkenende consistently stressed the need for ties among people who can see things from the perspective of others (Lechner, 2008: 78-79). Paradoxically, as only elites seemed capable of doing this, this may well usher in a new period of elitist Regent politics.

## 10.3 Firms' strategic positions in new settlements (phase 3)

### 10.3.1 Renewal of democratic settlements

The most disrupting effect of the discovery of natural gas was that it greatly reduced the urgency of all parties involved to end their polarisation and politicisation practices – against the grain of Dutch traditions of pacification, living-together-apart and proportionality. Yet, the accumulation of macro-economic crises, and the fear of becoming the worst pupil in the European Community class, eventually sharpened the tripartite desire to come to a new settlement. As a small country with an open economy subject to fluctuations in the international market, the two oil crises of the 1970s hit the Netherlands particularly hard. Industries like coal mining, textiles and clothing and shipyards proved impossible to sustain (Hemerijck et al., 2000: 211). Not only was unemployment becoming a “normal” phenomenon again in the Netherlands; the new European talk was of a “Dutch disease”.<sup>748</sup> Unemployment grew from 1-2% before 1973 to a staggering 8-14% in the first half of the 1980s. Furthermore, these official figures more than likely underestimated the problem. The acceptance of the social-democratic myth during the 1970s had given certain elements of the workforce and part of the unions an overbearing civic attitude; made worse by the comparatively high levels of benefits and taxes, which made wage work less economically attractive. All this meant the official unemployment rate most probably considerably understated the combined rate of involuntary and voluntary unemployment (Cox, 1993: 173-174; Hemerijck, 1992; Huber and Stephens, 2001: 279; Visser and Hemerijck, 1997: 132).

#### *i) Transformation of Dutch disease into Dutch miracle*

A number of attempts to re-establish nationwide wage guidelines had failed by the early 1980s, prompting the premature demise of the 1981 cabinet-Agt. But then, to virtually everyone's surprise, an agreement was concluded in Wassenaar in 1982. By the latter 1990s, the Wassenaar Agreement would take on mythical proportions in European popular opinion; turning talk of a “Dutch disease” into praise for the new “Dutch miracle”. Why were the Dutch able to transform a tentative settlement such as the Wassenaar agreement into a sustainable pact? And why did the Netherlands turn the corner ahead of the rest of the European Union? It certainly was not due to the far-sightedness of Dutch labour, business and government representatives. Instead, this small Dutch “miracle”, as all prior ones, was the result of two differentiating factors.

First, during periods of polarisation, part of the Dutch elites opted to complement fashionable attacks on the “undemocratic” habits and assumptions underlying the old settlement, with the low-key and private reinvention of exactly those habits and assumptions. Thus, the polarisation of the public debate during the 1970s notwithstanding, the more pragmatic social-democratic, confessional, liberal, employer and trade union elements throughout remained on speaking terms and kept demonstrating a willingness to compromise. This alternative consultation channel provided a new generation of leaders and policy vehicles with a means to anticipate the need for a settlement ahead of most of their European counterparts.

Second, Dutch elites did not force the pace of change and acceptance of the 1982 Wassenaar Agreement on their citizens. Of course elites played up feelings of urgency during successive geopolitical crises. Beyond feelings of urgency, however, they have relied on “happy accidents” to gain a broad platform of support for the Agreement and the

adopted pace of change. “Happy accidents” are dynamics that emerge fortuitously – rather than by design – to help a new generation of leaders construct a new settlement. What was the main happy accident which the new “no-nonsense” governments<sup>749</sup> led by the Christian-Democrat Lubbers made use of from 1982 to 1994 to transform Wassenaar agreement into a geopolitical success model? It was the “late” labour emancipation of married Dutch women from the 1970s onwards and the concomitant change in employers’ attitudes towards part-time jobs for married women. At the beginning of the 1970s, Dutch women’s labour participation rate was way below the West-European level (Delsen, 2000: 45).<sup>750</sup> The Dutch consociational system and welfare state was built on and reinforced by the male wage earner family structure. The period of polarisation, participation and politicisation in the 1970s very gradually and modestly induced a change in assumptions and behaviours. By 1980 some 35 percent of Dutch women were employed (Huber and Stephens, 2001: 136). Assumptions and behaviours changed more rapidly from the early 1980s. In 2003 almost 60 percent of Dutch women had a job or were looking for one – mostly a part-time job (CBS, 2003). This dynamic of a late behavioural breakthrough in the 1970s and comparatively greater female labour participation growth in the 1980s and 1990s, by no means could be contributed to a conscious policy on the part of the government (Delsen, 2000: 44; Hemerijck et al., 2000: 217). Behavioural changes by women and employers in terms of greater demand and supply of part-time jobs, occurred autonomously. Nevertheless, the Dutch government benefited enormously from those changes in transforming the modest Wassenaar Agreement into a decisive step towards a new Dutch miracle in the 1990s.

In 1982, a new government was elected, with the Christian-Democrat Ruud Lubbers as Prime Minister. The cabinet-Lubbers had gained power by presenting itself as the “no-nonsense” monetarist alternative, needed to get the country back on track and get public finances in order. The government immediately froze public-service salaries, social benefits, and the minimum wage. Also, the Lubbers government threatened the “social partners” – trade unions and employers associations – to quickly come to an agreement on wage moderation. And so did the social partners, to forestall further government actions. The unions accepted wage moderation and the end of automatic inflation in service of Dutch industry’s competitiveness. Employers agreed to a reduction of working hours and the need to increase employment through new “job sharing” practices. Finally, both parties accepted to decentralise collective wage agreements to allow for a greater degree of flexibility in meeting the needs of specific economic sectors (Andeweg, 2000: 706; Van der Wusten, 2001: 313-317).

The consensus for many years – both in the national and international press – was that the Wassenaar meeting produced a weak social agreement on wage moderation. No-one was surprised when at the beginning of the 1990s there was a near breakdown of the wage restraint formula. Yet, by the second half of the 1990s, “Wassenaar” was internationally seen as the decisive step to Dutch recovery. Similarly, the immediate effects of Lubbers’ “austerity policy” rather unsurprisingly were “unpopular”. Thus, when the government in 1983 announced it would cut public-service salaries, minimum wages, and social benefits by 3.5 per cent across the board, the public-sector unions organised their biggest strike since the war. Yet, Lubbers became the longest ruling prime minister in the Netherlands (1982-1994) (CPB, 1997: 83).<sup>751</sup>

Why did the monetarist policies of the Lubber cabinets and the Wassenaar agreement experience such a remarkable transformation of fortunes? The short answer is

that Dutch elites not only benefited from happy accidents and the low-key reinvention of old habits at the domestic level, but also at the European level.

*ii) The importance of the European level*

Regarding Lubbers' monetarist policies, one favourable antecedent was that Dutch elites on the European scene had long supported monetary union proposals spanning the Werner report in 1970, the 1989 Delors report, the 1991 Maastricht Treaty, and culminating in the Euro currency's introduction in 1999. Christian-Democrats' 1970s association of Dutch disease with the government's and Dutch Bank's inability to halt the importation of foreign inflation, may have contributed to this support. Yet, the Dutch government did not see the European Community as a tool against US-dominance in the same way French governments and popular opinion did. Obviously, the Dutch too felt somewhat bothered that the US was freed from many adjustment pressures and was able to run large balance-of-payments deficits by virtue the dollar being the international reserve currency (Lucatelli, 1997: 26-34).<sup>752</sup> Contrary to France – a country unwilling to surrender its mission to civilise the world, the Dutch State's nonconformism had an entirely more pragmatic character. In spite of social-democratic governments' lip-service to a higher civilisation mission in the 1970s, most Dutch elites privately kept reinventing the old habit of viewing the European Community as a pragmatic geopolitical platform – needed to maintain the Netherlands' geopolitical position of early follower, benefiting from low-cost international spill-overs.

But Dutch influence on European monetary integration was minimal. To institute a European monetary union long-standing differences in geopolitical strategies between member states had to be accommodated, in particular the different German and French viewpoints on Europeanisation. For France, a European monetary or social policy could only come about if the EC became a political reality as well, a position the West-Germans opposed. By default of such a German willingness, De Gaulle had favoured a "Europe des patries", respecting the full sovereignty of nation-states. *Fortunately for the Dutch*, after the monetary crisis of 1983-4, the French take on European policy shifted significantly. France started to work for the European Community to attain a state quality in as many areas as possible – the EC as a political actor with a territorial identity and a cultural mission. Furthermore, France gave top priority to monetary integration as a means of obtaining more influence on both European and international monetary policy – the former was dominated by the German Bundesbank, the latter by US dollar priorities. But where did the West-German willingness to compromise come from? The French during the 1980s often suspected the Germans of wanting a Europe which just faded out somewhere to the East, a Europe including neutral and even Eastern states; in other words, a very un-statelike Europe unable to act in unity (Waeber, 1990).<sup>753</sup> Paradoxically given its own imperial ambitions, the support of the US government was crucial in convincing the West Germans. The US government saw both the reunification of West and East Germany, and monetary union as important ways to increase the stability of commercial exchange with Europe and pre-empt re-nationalisation threats in that continent. Arguably, the US was also interested in a new European bargain because it saw the world in East-West terms; with the EEC already forming part of the US' Western expansion of the "Empire of Liberty".<sup>754</sup> In that perspective, greater union of Europe and Germany constituted a gain for US imperial ambitions, and a loss for the Russian influence sphere.<sup>755</sup> An autonomous European central bank, on the other hand, would be founded on principles akin to the own "Council of Wise" tradition of democratisation – thus helping to avert the threat of re-

nationalisation of monetary policy. To make a long story short, the Bundesbank's reservations notwithstanding, the German government by the late 1980s was ready to surrender its informal monetary dominance to a new European monetary body; in return for its longheld aspirations of German reunification, and the larger aim of substituting European nation-building for the destructive German identity of the past.<sup>756</sup>

The key dynamics responsible for the belated making of the Wassenaar Agreement myth are similar to the ones responsible for the transformation of Lubbers' monetarist policies. The Wassenaar agreement co-developed with two largely autonomous dynamics, one domestic, the other European: the comparatively greater influx of women in part-time jobs in the 1980s and 1990s, and the growing need to find a "model" to guide EU social policy in the same period.

The original Wassenaar agreement was weak and all but comprehensive, entailing no more than another "wage restraint" pact, not the active labour market policy that was at the heart of the Dutch miracle. It was not until the end of the 1980s that a significant shift took place towards a more active labour market policy. By then, the "improper" use of the main disability scheme (WAO) led to a real and perceived crisis of inactivity (Hubers and Stephens 2001: 279).<sup>757</sup> Dutch policy-makers, politicians, the social partners, and the larger public alike, came to hold the low level of labour market participation to be the "Achilles" heel of the Dutch welfare state (Visser and Hemerijck, 1997: 155). By the late 1980s, about 850.000 people made use of the disability scheme. Yet, by the end of the 1990s the number of people making use of the disability scheme had increased to almost a million (CBS, 2004). So, how did the Dutch realise the twin goals of cutting welfare costs and boosting labour flexibility and participation rates – core ingredients of the Wassenaar myth? In short, women entering new part-time jobs provided the proverbial "cheap and abundant fuel" needed to turn Dutch disease in Dutch miracle – making female part-time jobs the equivalent of 16<sup>th</sup> century peat.

The late entry of women helped to both identify a problem all social partners could agree upon and solve the problem in way all parties could sell to their core constituencies. The accelerated entry of women in the labour market from the 1980s onwards boosted the number of part-time workers in the Dutch economy in a relatively short period – compared to most other advanced economies, where this occurred slowly, over a much longer period. Furthermore, active labour market policies had remained comparatively underdeveloped in post-WWII Netherlands. In other words, most other advanced economies did not dispose of the cheap and abundant fuel of women entering flexible part-time jobs to the extent the Netherlands did. Seeing that the entry of women in new part-time jobs was already well underway, the Dutch social partners used it as a platform to build on and reinforce their active labour market policies. Hence, during the 1990s a new policy focus evolved directed at active labour market policies, entailing the creation of permanent jobs in the public sector for long-term unemployed, the "activation" of recipients of social security benefits, and the provision of subsidies to those employers hiring low-skilled workers in part-time jobs. Simultaneously, the government continued dismantling social security schemes.<sup>758</sup> The retrenchment of welfare provisions and the massive, voluntary adoption of labour flexibility schemes changed the original character of the 1982 wage restraint agreement. Wage demands were increasingly pushed from the bargaining table, as unions negotiated extra-legal supplementary benefits at the expense of wage increases (Hemerijck, Unger and Visser 2000: 221-222; Cox 2001: 482-484). The exchange logic behind the Wassenaar agreement had been transformed in one of lower

taxes for workers and lower social contributions for employers. Also, as unions and employers agreed to abolish residual differences in rights and fringe benefits between full-time and part-time workers were abolished, they also concurred on the loosening of dismissal procedures as well as working time restrictions, though mainly for part-time and temporary workers.

The Wassenaar agreement could not have taken mythical proportions if it were not for its fortuitous co-development with European leaders' search for an EU social policy "model" from the late 1980s onwards. Before 1985, European social policy had consisted solely of attempts to coordinate migrant workers' social rights (1958-1973), and the promotion of the equality of men and women (1973-1985). By the 1986 Single European Act, two shifts had taken place in European social policy. In response to the macro-economic crisis of early 1980s, there had been a shift from the aim of harmonising social policy to respecting the diversity of national systems. In other words, the principle of subsidiarity was revived to protect smaller countries' autonomy and voice in the integration process (Hantrais, 2000: 26-27).<sup>759</sup> This suited the Dutch very well. Simultaneously, the French government made a U-turn with its stance on European integration<sup>760</sup>; meaning that the scope for a European social policy vastly increased. Thus, the problem of social exclusion and the promotion of social inclusion were adopted from French social policy in the late 1980s as guiding principles of EU social policy (Annesley 2003: 148-149). French lobbying notwithstanding, during the 1990s a rather un-French assumption developed at the heart of the EU's social policy. This assumption was very contiguous with the Dutch example of activation of welfare provisions and part-time jobs in service of greater labour market participation and economic growth. Given that the Dutch had felt the effects of subsequent energy crises harder, and turned the corner on unemployment earlier than their European counterparts, their policies were bound to become noticed at some point – particularly since the Dutch had consistently acted as a loyal, core member of the Union. Remarkably, the Frenchman Jacques Delors was one of the first to take notice. He helped launch the debate on the European Union's mission to enhance growth and lower unemployment rates – among others through encouraging part-time work – with his 1993 White Book on Growth, Competitiveness and Employment.<sup>761</sup> Labour market reforms were to become central to the coordination of macro-economic and employment policies.

The criteria of a European employment strategy were first developed in the 1994 Essen Council meeting (Sciarra, 2003, 2004), and consolidated in the Amsterdam Treaty and the 1997 European Employment strategy. These documents increasingly referred to flexible part-time jobs and the activation of welfare provisions in the spirit of Dutch agreements in the 1980s and 1990s. European and OECD talk<sup>762</sup> of a Dutch model and miracle fed back into the Dutch domestic process. While an IMF warning in 1991 that the Netherlands should not try to improve its competitiveness by wage restraint<sup>763</sup> had increased pressure on the fragile wage moderation pact to near breaking point, the opposite was very much true from the mid-1990s onwards. In an epistemic community spanning the OECD, IMF, World Bank, European and US central banks, the Netherlands has acquired model status as the European country that had "registered Anglo-American levels of growth and employment creation without the accompanying social trauma, inequality, and attacks on organised labour" (Levy, 1999: 258).<sup>764</sup> Increasingly, trade union leaders prided in their support for the Wassenaar Agreement and the Dutch wage restraint formula responsible for international praise of the Dutch miracle (Becker, 2001a: 465; 2001b). In

1997, the chairman of the Dutch Federation of Unions no longer could hide his euphoria about the Wassenaar Agreement to a group of foreign journalists: “In the past 13 years, wage costs per unit of product rose almost 30 per cent in France and even 40 per cent in Germany. Here, on the other hand, they fell by over 1 per cent! Then we have employment. Employment rose by no less than 21 per cent in the Netherlands; that’s 10 times more than in France and four times more than in Germany” (Quoted in Van Empel, 1997). As such labour union consent to the theory of a virtuous relation between wage moderation and job creation was absent even in most North American unions, Wim Kok congratulated himself and his country on their status of leading light of the “Third Way”.

*iii) The resurgence of the Central Planning Bureau*

A last happy accident Dutch policy-makers, and the Wassenaar mythology, benefited from was the resurgence of the Central Planning Bureau (CPB). In conjunction with the European Court of Justice<sup>765</sup> and the Bundesbank, which later became the European Central Bank, the CPB would provide a very useful vehicle to reconcile the geopolitical dominance of US traditions of democratisation with the reinvention of home-grown traditions – core ingredients of the Dutch historical success model. As mentioned above, during the 1980s the US government ushered in a new stage of more confident imperialism, in which it aggressively exported its traditions of democratisation to the rest of the world. The US traditions in questions were Real Whig voluntarism, happy mediocrity, and pluralism (p. 238). As soon as it became clear that Soviet communism was bankrupt and the Iron Curtain would come down, a US epistemic community, with the full support of the government, started pushing one tradition even more, the “Council of Wise” tradition of democratisation. The latter tradition more than any other contributed to the end of history doctrine of “liberal capitalism” which was so in vogue from the late 1980s onwards. This governance style purportedly involved a “weak state”, regulatory bodies led by management specialists infused with norms of “efficiency”, and a strong emphasis on civil society and markets as the legitimate sources of democratisation.

How would the Netherlands adapt to the geopolitical dominance of US traditions of democratisation – in particular the Council of Wise tradition, the key extra-parliamentary building block of the US “liberal tradition”? In the post-WWII period, the Labour Foundation and Social-Economic Council had been the institutions that came closest to acquiring this “Council of Wise” quality, as did the Bundesbank in Germany – all the more so given these three institutions’ federal character. Unfortunately, the de-legitimation of formal consociational institutions during the 1960s and 1970s involved a severe loss of authority for the Labour Foundation and Social-Economic Council. Fortunately, the Central Planning Bureau (CPB), an institution which had been co-founded with the former two in the early post-WWII years, was ready to take up the mantle of “Council of Wise” from the early 1980s onwards. The revival of the CPB was a crucial condition to the successful renewal of faith in the “wage restraint formula” (Den Butter 1991: 17; Donders and Graafland 1998: 346). As early as 1977, a first “wage restraint” pact had been agreed upon by employees, unions and the State. Yet, by default of an “a-political” standard-setting authority, this pact remained highly contestable. This explains why government expenditures continued rising under the two succeeding governments (the cabinets-Agt of 1977 and 1981).<sup>766</sup> Yet, during the 1980s, the US epistemic community pushing the Council of Wise tradition gained more and more international prominence. In spite of their public adherence to the primacy of politics, Dutch elites across the board reacted by privately renewing habits of technical inner circle negotiation – by civil servants,

pressure groups and government representatives - was restored (De Boo, 1989: 145-146). This facilitated the resurgence of the CPB, whose experts historically had been at the heart of the Dutch epistemic community of technocratic policy-making.

During the 1980s, and increasingly so in the 1990s, political parties developed the habit of asking the CPB to check the economic effects of their party programs and policy proposals. The precondition of "CBP approval" was taken seriously even by political parties in opposition. According to the CPB's head of the "Macro-Economic Outlook" department, "the CPB is expected to provide politically relevant analyses that at the same time are 'rational scientific', moving beyond any political or ideological discussion" (Cited in Hendriks, 2005: 58). The CPB's 1992 Macro-Economic Outlook constituted a turning point in the ill fortune of the wage restraint formula in the early 1990s. The CPB linked the fact that employment growth in the Netherlands had been higher than in other European countries since 1983 to the wage restraint formula reintroduced with Wassenaar (CPB, 1992: 82-87).<sup>767</sup> This, together with the earlier acceptance of the social-democrats as junior parties in the Christian Democratic led cabinet, facilitated the unions' acceptance of the wage restraint formula, in turn contributing to the creation of the Wassenaar myth. Yet, it was only when macro-economic and employment figures improved substantially to the point of becoming the focus of international praise – from the mid-1990s onwards – that most of the media, employers and unions came to accept the CPB as an incontestable vehicle of proportional wisdom.<sup>768 769</sup>

*iv) The problem of immigration*

The above sections may have conveyed the impression that everything was well in the Netherlands in the period 1982-2007, by virtue of a highly symbiotic relation between Dutch and European traditions of democratisation. One policy issue where Dutch passivity and delegation to the European level totally backfired, with dire consequences at the beginning of the new millennium, was immigration. The evolution of Europe's immigration policies, particularly regarding Muslim populations, reads like a catalogue of European Union growing up pains, and constitutes glaring proof of a continued lack of geopolitical leadership in this fledgling juggernaut. With the benefit of hindsight, three strategic flaws stand out in European immigration policy.

European and national policy-makers have pre-empted more imaginative and strategic regulation by attributing themselves with a delusive ability to control the temporal and cultural impact of non-European immigration. Contrary to earlier migration waves, post-WWII migration stemmed from explicit, intentional calls for migrant settlement. Significant migration into post-war Europe began with labour migration in the 1950s, with male workers brought in on temporary contracts. These "Gastarbeiter" of non-European origin – principally from former French colonies – were seen not as prospective citizens but as filling a passing need in labour markets. At no point did European policy-makers envisage the permanent settlement of these post-war immigrants. By the 1970s, however, large numbers of workers had not returned home, and they increasingly brought in families to establish full-fledged communities in European cities.

For many years, a stalemate between liberal-democratic and social-democratic myths perpetuated a wait-and-see attitude on the part of European elites. On the one hand, European elites motivated by the liberal tradition deemed that "integration would come about of its own accord", "under the aegis of increasing cross-border economic co-operation". In other words, no specific political and social efforts were necessary (Cohen-Bendit, 1993: 27-28), in spite of several historical realities. Unlike the US, Canada, or

Australia, European populations have never thought of themselves as “nations of immigration” (Parsons and Smeeding, 2006: 3-5).<sup>770</sup> And while neither the EU nor its member states had developed a working immigration tradition, by 2002 roughly 15 million immigrants – some 8 percent out of a total of 200 million migrants worldwide had come to the EU, a region of the world accommodating only 6 percent of world population (United Nations, 2002).<sup>771</sup>

Social-democrats, for their part, in the wake of the West German social market economy credo, preferred to hold on the high modernity myth of a “social” Europe. That is, rather than face up to the reality of permanent immigration and come up with clear criteria for permanent immigration. Stuck in an ideological position that bore little relation to dynamics on the ground, social-democrats adopted an attitude of protective silence towards immigrants (e.g. Garrard, 1971).<sup>772</sup> Social-democrats were content with the official “return migration” incentives that were in place into the early 1980s (Koopmans, 1999).

With the benefit of hindsight one would think that neither liberals or social-democrats could get around one major issue: the different type of State-religion relation adhered to by Muslim immigrants. Yet, for several reasons, some more opportunistic than others, European governments essentially “outsourced” State-Islam relations to Muslim diplomats (Laurence, 2006: 263). For one, in the wake of OPEC’s oil embargo of the United States and the Netherlands in 1973-4, European governments were eager to be on good terms with regional powers in the Arab world, who were the source not only of immigration but also of oil (Laurence, 2006: 265-266).<sup>773</sup> This “home country identity” policy was not controversial, since guest workers and their offspring were not destined for European citizenship anyway. Islam could therefore be treated as an “exogenous reality” (De Galember, 2001). The policy of encouraging the use of foreign funds for religious practice was also convenient, in that it deprived emerging anti-immigration parties of one argument in their “integrate or leave” logic.<sup>774</sup> The result of all this, however, was that by the 1980s European Islam was organised in a powerful set of transnational communities that national frameworks found hard to reframe.

At the end of the day, the way the European Union and its member states have tackled the issue of immigration has left a profoundly anti-democratic taste in incumbents’ mouth. Clearly, the voice of the majority of European incumbents – national parliaments – since the 1970s was to restrict or curb immigration. Indeed, the *fait accompli* of permanent settlement of entire migrant families has never been sanctioned by national parliaments and a clear pro-settlement public debate. On the contrary, it was the result of the reinforcement of constitutional human right guarantees by a rather invisible, unelected body: the European Court of Justice. Although the European Court of Justice to date is unendowed with the Council of Wise legitimacy its US counterpart possesses, it has played a key role in protecting immigrants’ rights to settle against restrictions by elected officials (Joppke, 2000).

This has increased distrust in the EU enormously, particularly since the fall of the Iron Curtain. The geopolitical priority of the Cold War had convinced most European parties they could not afford nationalist or xenophobic disputes. With the fall of the Berlin Wall, however, fear of Europea and xenophobia were given free rein. To some extent 1989 marked a watershed year that initiated a second phase of State-Islam relations, after which European governments sought to reassert state sovereignty over transnational Muslim networks.<sup>775</sup> In more recent years, many national governments again have come to the

realisation that the old strategy of keeping Islam out of the public sphere, and using international diplomacy to manage the religion of immigrants was ill-judged. Yet, all these efforts notwithstanding, to date a coherent European immigration policy is still lacking.

It would be wrong to scapegoat the European Union alone for the failings of nation-states' immigration policies, however. Even now, the harmonisation of immigration policy initiatives at the European level – the mandate of Tampere – is limited by the fact that few EU countries have anything resembling an immigration policy of any kind beyond a policy of restriction (Schain, 2006: 390). Given its long traditions of accommodating religious and civic minorities, the Netherlands should have been better placed than other European nation-states to deal with Muslim immigration. Unfortunately, the heydays of the Dutch and European social-democratic myth coincided with an accelerated period of secularisation and polarisation in the Netherlands. The relative homogenisation of the Netherlands and the unwillingness to break with the social-democratic – 1970s – and liberal – 1980s and 1990s – myths, entailed a certain decline of consociational traditions to deal with religion. This has brought about a declining ability to deal with outsider groups such as Muslim immigrants (cf. Muus, 2004: 265). It is only during the last few years that the Dutch Christian-Democrats have prioritised this problem and tried to revive and extend traditions of living-together-apart, pacification and proportionality to Dutch Muslims.

v) ***The Dutch “no” in the EU referendum***

While it may be wrong to scapegoat the EU for nation-states' failings to reinvent their own traditions, for instance regarding migration, that is exactly what the French and Dutch populations did during the 2005 European Referenda. One key antecedent to the Dutch “no” in 2005 was the reversal of the Netherlands's status from net receiver to net contributor in the 1990s – the result of shrinking agricultural subsidies. This reversal coincided with a growing feeling that the Netherlands was becoming an awfully small and ordinary member state in the fast expanding EU. Both issues dented Dutch confidence in the EU as the main platform to realise their historical success model of “Dutch nonconformism”. At the beginning of the new millennium, the Fortuyn movement started wreaking havoc. A Marxist turned Orangist, Fortuyn maintained that the Netherlands had become disconnected from its roots in Christian traditions after the anti-authoritarian revolt of the 1960s. Unable to tackle the triumph of meaningless liberal capitalism with anything else but relativism (Fortuyn, 1997: 12), the Netherlands had become an “orphaned society” (Fortuyn, 2002b). Similarly, he maintained, Dutch businesses operating in global networks had long lost touch with their country of origin. In sum, the Dutch elite had become “fatherlandless” (Fortuyn, 1997: 16-18). And, the EU, rather than helping the Dutch reinvent their roots, had played a perverse role in all this. Regarding Muslim immigration, the main problem was that “The Hague” and its European extension “Brussels” had become a caricature of a closed, incestuous establishment out of touch with the people. Fortuyn attacked the “mess” - “puinhopen” – created by the out-of-touch political classes (Fortuyn, 2002a).

After Fortuyn's death, several spin-off leaders jumped on the anti-EU bandwagon. For instance, in the wake of the EU referendum the conservative liberal Wilders stressed at every opportunity that the EU was becoming a superstate “where the big countries will be in charge”. Furthermore, following Fortuyn, Wilders claimed back national control over immigration policies at the expense of the European Court of Justice and even national constitutional guarantees. The influential Elsevier, a magazine usurped

by the new Conservatives, opposed the European Constitution because it would undermine Dutch national “solidarity” (Joustra, 2005; Van Tuyll van Serooskerken, 2005: 1049). Remarkably, from the other side of the ideological spectrum, the socialist (SP) leader Jan Marijnissen converged on the same themes. He objected to the “federalisation” of Europe, arguing that such a Europe was too much in favour of big businesses and big countries, and eventually would turn the Netherlands into a “powerless province” (Lechner, 2008).

*vi) A distinct housing policy*

Another area where European and Dutch traditions and policy goals have collided, particularly in the last few years, is housing policy. Dutch housing policy and its effects on housing tenure since WWII have been highly distinctive within a western European context. As we saw in chapter 7, fit-of-absentmindedness more than anything else explains why 60% of Dutch housing market growth in the post-WWII period has been on account of the non-profit rental sector, in particular hybrid public-private housing associations. In sum, the Dutch government did not realise to what extent it was putting itself on a path-dependent track when it introduced a high degree of housing regulation after WWII. Given that the private housing market was in a shambles, and had remained underdeveloped compared to for instance England, the new regulatory policy proved incredibly successful; to the point that the government dare not withdraw its subsidy schemes from the 1950s and 1960s onwards, as it had planned. In line with pillarised forces, housing associations built on this policy to extend their grip on the housing market. Long after the demise of pillarisation, the Christian-democratic and social-democratic umbrella housing organisations continued to grow.

That is because these hybrid organisations, in comparative perspective, were very successful. While holding on to maximum private self-reliance, they successfully adopted the public functions of housing households with a modest income, fostering variety in the housing stock and reducing spatial segregation. All this gave the Netherlands a unique position in Europe in terms of tackling the problems of urban renewal and social neighbourhood development (Primus, 2006). While Dutch housing performance has been extremely good within the EU (Norris & Shields, 2004), the European Commission’s “liberal” turn in the late 20<sup>th</sup> century has led it to voice criticisms about the “disproportionate” size of the Dutch social rented sector.

In spite of the rapidly increasing share of home-ownership in the Dutch housing market – from 35% in 1970 to 54% in 2000, the Dutch social rental sector in 2003 still was the largest of the European Union by a clear margin, with a market share of 36%. At a distance followed Denmark (27%), Sweden (24%) and the United Kingdom with a share of 21% (Norris and Shiels, 2004). According to Brussels, Dutch housing associations provide housing for a much larger group than necessary to fulfill their universal standard remit, namely to house the low-income groups. In sum, housing associations are hampering sound commercial competition. And this argument overrides even the added legitimisation of housing associations as low-cost promoters of integration and spatial integration of different social classes – which explains the comparatively low stigma on social renting in the Netherlands (Dieleman, 1994; Priemus and Dieleman, 2002).

In response, the Dutch Housing Minister as early as 1997 has announced that each housing association would be split up into a parent with a public function and one or more subsidiaries with commercial activities— with the aim of making the Dutch housing association system more Brussels-proof (Primus, 2006). Furthermore, since the 1990s Dutch housing ministers have been eager to promote private home-ownership, no doubt to

satisfy their own belief in the superiority of the liberal tradition. The relative decline of the social rental sector, however, meant that the Dutch could not use it anymore as an effective anti-cyclical means from the 1990s onwards.<sup>776</sup> What is more, the phenomenon of housing equity withdrawal which was created by the Dutch government's eagerness to adhere to the liberal tradition and the virtues of home-ownership, further weakened this cyclical antidote. Thus, the process of housing equity withdrawal, i.e. the tendency of households to extract equity from the value of their houses to finance the purchase of other assets, has played a significant role in boosting consumption in the Netherlands since the 1990s, as it did in the United States, the United Kingdom, Australia and Ireland. In effect, housing equity withdrawal has had a double cyclical impact, first boosting macro-economic consumption, and from 2001 onwards, acting as a major drag on the economy (De Nederlandsche Bank, 2003).<sup>777</sup> In particular since housing prices in the Netherlands have risen comparatively more than in the surrounding countries.

### **10.3.2 Formal evolution of the suffrage**

The reality of creeping individualisation, and increasing support for a social-democratic breakthrough of consociational paternalism as early as 1967 had led to an immense formal amendment of electoral rules: the abolition of compulsory voting. Since its introduction together proportional representation in 1967, compulsory voting had remained a much debated issue in the Netherlands. Reasons given for the abolition were threefold: each citizen should be free to exert his individual right, it is difficult to enforce sanctions against non-voters, and political parties may become more dynamic if they have to more actively compete for attention. Furthermore, social-democrats insisted on the principle of active politicization; based on the assumption that the relation between compulsory voter turnout and actual interest representation was rather weak (Gratschew, 2004). The 1967 change had a significant, lasting effect on voter turnout. The first post-abolition parliamentary elections in 1971 witnessed an immediate fall of 15.8 per cent. While in the period 1917-1967, voter turnout was consistently above 90%, it dropped to 79.1% and 82.9% in the parliamentary elections of 1971 and 1972. The first six elections after abolition (1971-86) produced a turnout average of 84.1 per cent; the average for the most recent five elections (1989-2003) has been 78.3 per cent (Bennett, 2005).<sup>778</sup> These turnout rates were still higher than in many other voluntary voting systems in Western Europe – such as the UK.

Beyond absolute turnout figures, one relative trend became more pronounced from 1971 onwards: especially the lower social classes turned out in lesser proportions to vote (Irwin, 1974). Prior to the abolition of compulsory voting in the Netherlands, there had been only a 4% difference between the voting levels of the 'top' and 'bottom' classes. After abolition the difference in turnout among different social groups jumped to 21% (Rogers, 2005).

### 10.3.3 Financial institutions' strategies of democratisation

In Figures 10.1 and 10.2, I visualise the growth of different Dutch financial institutions in terms of total amounts of deposits received and share of the savings market. In Table 10.1, I provide total asset figures: I document growth and marketshare figures over the period 1970 to 2006. Given the merger of the State Postal Savings Bank with the NMB in a commercial bank in the 1989<sup>779</sup>, and the increasing insignificance of remaining savings banks<sup>780</sup>, I shall only making passing mention of mortgage banks and savings banks. The comparative focus of the following sections really is on the Co-operative Rabobank and the major commercial banks. Finally, in table 10.2 I provide a comparative ranking of commercial and co-operative banks in terms of the six strategies.

**Table 10.1: Growth and proportional shares of building societies versus banks**  
in terms of total assets (millions of Guilder and Euro)

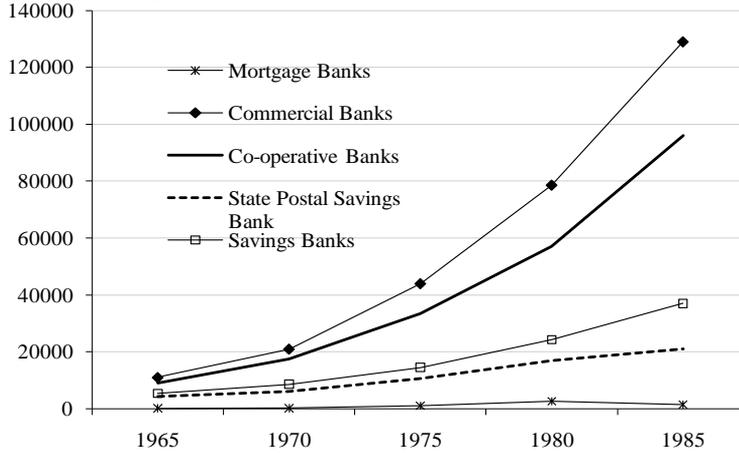
<i>Dutch Guilder currency</i>				
<i>Year</i>	<i>Co-operative Banks</i>	<i>Commercial Banks</i>	<i>General Savings*</i>	<i>State Postal Savings**</i>
1970	19,376	48,568	9125	6641
1980	94,215	275,805	25,606	19,130
1985	125,006	390,333	34,216	29,884
1988	161,576	938,616	-	-
<i>Euro currency</i>				
<i>Year</i>	<i>RABOBANK</i>	<i>ING</i>	<i>ABN AMRO</i>	<i>FORTIS</i>
1994	122,091	160,000	229,000	-
1995	133,192	180,000	248,000	-
1996	152,068	221,000	272,000	-
1997	194,222	282,000	379,500	300,524
1998	249,718	395,000	432,100	340,262
1999	281,218	492,815	457,900	406,109
2000	342,920	650,172	543,200	438,083
2001	363,679	705,000	597,400	482,970
2002	374,720	716,000	556,000	485,765
2003	403,305	779,000	560,400	523,250
2004	483,574	866,000	727,500	614,085
2005	506,573	1,158,639	880,800	728,994
2006	556,455	1,226,307	987,100	775,229
<b><i>Growth (x) since 1997</i></b>	<b><i>2.86</i></b>	<b><i>4.35</i></b>	<b><i>2.6</i></b>	<b><i>2.58</i></b>

\* By the mid to late 1980s general savings banks had adopted the for-profit joint-stock company form.

\*\* State Postal Savings Bank merged with the Postcheque- en Girodienst (the national postal cheque and payment service operator) in 1977. In 1979, the Amsterdamse Gemeentegiro was added to the merger. In 1986, this consortium was privatised.

Source: Annual Reports Rabobank, ING, ABN AMRO, FORTIS

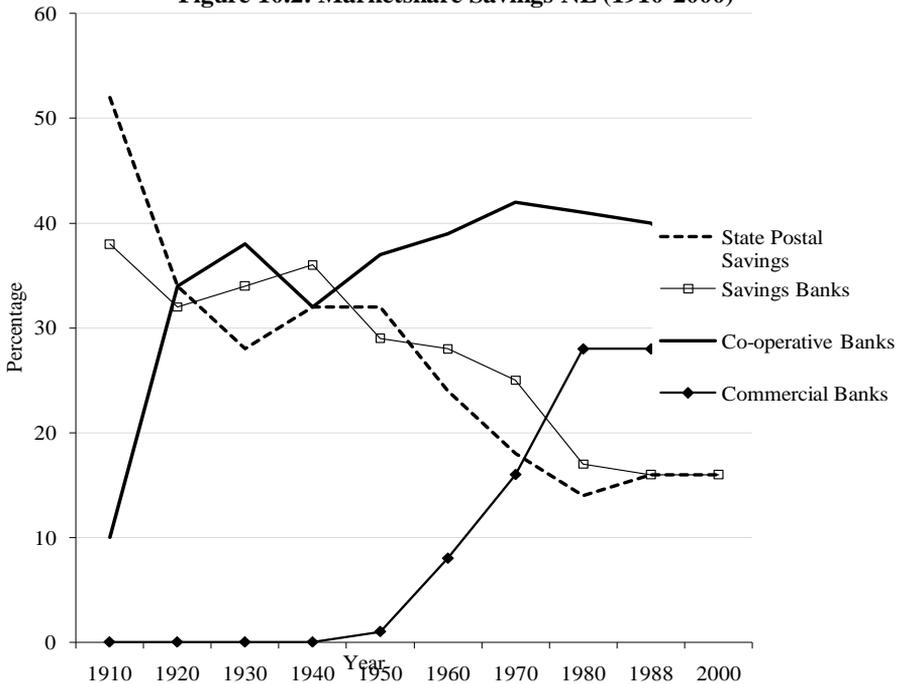
**Figure 10.1 : Total Deposits NL Banks (1965-1985)**



**Table 10.2: Comparative ranking of commercial banks and co-operative Rabobank**  
(1=highest, 4=lowest)

	Commercial banks			Co-operative bank
	<i>ABN AMRO</i>	<i>ING</i>	<i>FORTIS</i>	<i>RABOBANK</i>
<b>Strategy a</b>	1	1	3	3
<b>Strategy b</b>	3	1	4	2
<b>Strategy c</b>	1	3	1	3
<b>Strategy d</b>	3	1	3	2
<b>Strategy e</b>	4	1	3	2
<b>Strategy f</b>	1	1	3	1

**Figure 10.2: Marketshare Savings NL (1910-2000)**



**Strategy a Help core customers fulfil their social class aspirations**

*i) Commercial Banks*

The mobility of what aspiring social classes did commercial banks serve from the late 1960s onwards? After a few subdued post-WWII decades, the AMRO and ABN banks found their “Regent club” stride again. Both banks rapidly renewed their stake in the international financial system, allowing them to benefit from the burgeoning Eurodollar markets – ABN more than AMRO had retained a considerable stake throughout the post-WWII period. By 1975 Eurodollar business accounted for 33 percent of ABN’s total assets, 35 per cent of AMRO’s and 23 percent of the small and medium enterprise bank NMB (Sluyter et al., 1998: 248). What is more, by virtue of AMRO’s and ABN’s increasing involvement with large industrial corporations, they soon acquired a pivotal role in a new international network of interlocking directorates by the beginning of the 1970s; a network with its centre of gravity in the European Union, but with clear bridges to Anglo-American companies – provided by Royal Dutch/Shell and AMRO bank in particular. By

the end of the 1990s, the 1991 creation ING Group – comprising the old State Postal Savings Bank, NMB, and the Dutch insurance group Nationale Nederlanden<sup>781</sup>, and FORTIS Bank – a Belgian Dutch savings-insurance conglomerate<sup>782</sup>, had eclipsed the 1990 creation ABN AMRO as pivotal players in the highest European banking and industry classes (cf. Heemskerk, 2001).

Still, commercial banks did not simply reinvent their pre-WWII roots. They had started a modest retail banking revolution from the late 1950s onwards, and kept investing and diversifying in a variety of retail products and services, including mortgages from the 1970s onwards. For a commercial bank such as ABN AMRO, however, retail banking was not a core business, but a safe and profitable way to get access to money and retain minimum liquidity levels. At the turn of the twenty-first century, ABN AMRO's long neglect of « core depositors » - i.e. core retail customers' checking, savings and money market accounts – in favour of easier, albeit less loyal and more volatile wholesale depositors, came back to haunt it. In addition to being more volatile in times of trouble, wholesale deposits are generally more expensive than core deposits, putting a strain on net interest profit levels – the difference between what banks pay depositors for their funds and what they earn by loaning that money back out. During the 1990s, commercial banks such as ABN AMRO were able to ignore the erosion of core deposits as wholesale money markets were burgeoning – as did fee income – and merger efficiencies were rife. By the turn of the 21st century, however, fee income had plateaued and much of the financial industry had been consolidated. ABN AMRO reacted by investing more in its retail banking operations during the last few years; yet, by then it had become structurally disadvantaged compared to more established retail banks such as ING and Rabobank. Ultimately, this failure led to the sales of ABN AMRO to a European consortium of banks in 2008.

ii) Co-operative Rabobank

As long as “non-core deposits” – such as Eurodollar deposits – were cheaper and more readily available in international money markets, Rabobank – formed out of a merger between Catholic and Protestant-neutral co-operative banks in 1972 – was bound to be comparatively disadvantaged in its service to new social class aspirations. For instance, by 1975 Eurodollar business accounted for only 6 percent of Rabobank's total assets.<sup>783</sup> And the margins widened further during the next decade.

While Rabobank was disadvantaged as to the aspiration of making money militantly and instantly in international money markets, it had other, more low-key, domestic assets. By virtue of its early sidelining of confessional principles and its anticipatory shift towards a non-agricultural customer base in the late 1960s and early 1970s, Rabobank was at the forefront of drawing in more small and medium enterprises, and middle class people with home-ownership aspirations in the financial system. From a follower in the post-WWII period (apart from the agricultural industry), Rabobank by the 2000s had grown into the overall market leader of Dutch small and medium enterprise, with a share ranging between 30 and 50 per cent, depending on the particular industry.<sup>784</sup> This was an astounding success, given that the bank was up against the competition of the government-sponsored SME bank NMB, which by virtue of having been in existence for more than forty years, had taken a significant headstart. And after the demise of specialised mortgage banks at the beginning of the 1980s, Rabobank's mortgage bank became the uncontested leader in the mortgage market too, with shares fluctuating between 25 and 30 per cent in the last decades.<sup>785</sup>

Nevertheless, during the heydays of the liberal tradition (1982-2003), the classes of customers who felt most attracted to Rabobank services were not the most glamorous ones. A 2000 report<sup>786</sup> concluded that “with the economic boom of the last years” consumers of financial services had “more money to spend”, had become “more knowledgeable”, had adopted a “more hedonistic lifestyle” and “partly out of necessity” take charge of their financial affairs. With regards to market position, Rabobank comparatively attracted most customers in the following spheres : the “Family Inc.” and consumers looking for “safety” in uncertain times. The ABN AMRO bank, on the other hand, attracted more “financially ambitious consumers”. The Postbank, finally, is positioned as the bank of “financial outsiders”, i.e. those looking for an easy, cheap and minimal solution to financial affairs. While the Postbank was generally considered an “anti-bank” by virtue of its lack of bureaucracy and “bombastic” outlets, and the ABN AMRO bank’s style were often perceived as “business-wise” and “commercial”, Rabobank’s services were depicted as the “familiar” and “humane”, but also “average” solution to financial affairs. In sum, Rabobank held its own, but not more than that.

**Strategy b Cater to customers of different social classes.**

*Comparison commercial and co-operative banks*

How did commercial banks do in terms of tempering resentment and extremity of feelings between groups and providing all social classes with a means to fulfil their rightful aspirations? By fit-of-absentmindedness rather than design, Dutch commercial and co-operative banks turned out to be highly complementary in this regard. First, all banks from the late 1960s onwards took the turn to becoming Allfinanz providers, which implied a willingness to cater to a variety of social classes.

**10.3: Ranking of market leadership of major banks in the Netherlands**

(1 = highest, 4 = lowest)

	Payment services	Savings	Consumer credit	Mortgages	Investment banking	Private banking
<b>ABN AMRO</b>	3	3	2	3	1	<b>1</b>
<b>RABOBANK</b>	2	1	3	1	2	<b>4</b>
<b>ING</b>	1	2	1	2	3	<b>3</b>
<b>FORTIS NL*</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>2</b>

(Source: Boonstra and Groeneveld, 2006: 32)

\* FORTIS market leadership in the Netherlands only, not Belgium

In table 10.3, I provide a ranking of the market leadership of varieties of banks in Dutch financial services. The different services by a large correspond to different social classes. Savings is an activity most popular amongst the lower and middle classes, payment services is an almost universal service, consumer credit services are directed mainly to the lower and middle classes, mortgages are most affordable for the wealthier and settled middle classes, while investment and private banking are the remit of the upper, international classes. ING, with its low-cost banking division – the commercialised State Postal Savings Bank, and Rabobank top the savings, mortgages and payment services rankings. Rabobank has also long topped the rankings in terms of other universal service denominators: publicly available cash machines and deposit-taking branches (see tables

10.4 and 10.5). ABN AMRO, for its part, tops the ranking of the upper classes services. All banks, however, are active in the different banking services.

**Table 10.4: Number of publicly available cash machines in the Netherlands**  
(beginning of 1992)

<b>ABN AMRO</b>	711
<b>NMB Postbank (ING)</b>	765
<b>General Savings Banks</b>	523
<b>Rabobank</b>	1332

**Table 10.5: Deposit-taking branches in the Netherlands, 1981**  
(Source: Boleat, 1981 : 63)

<b>Institution</b>	<b>Number of Branches</b>
Rabobank	3,102
General savings Banks	641
Commercial banks	2,258

ING undoubtedly has the most breadth and relative depth in most services, followed by Rabobank. Contrary to Rabobank and ING, who championed the small and medium business market, ABN AMRO, by contrast, clearly has become the bank for the upper classes and large multinational companies. That is, in spite of its constituent banks' early efforts to become Allfinanz providers in the 1970s – during which they built a range of new products and services to attract the widest possible clientele, plus a country-wide branch network to distribute them.<sup>787</sup> In 2001, ABN AMRO's marketshares were as follows : 40 percent in Corporate banking, 25 % of SME banking, and some 17 % in retail banking (about 20 percent in savings and lending and some 15 percent in mortgages).<sup>788</sup> When comparing trajectories to the status of Allfinanz provider, it is interesting to see how Rabobank followed a much more gradual path than ABN AMRO<sup>789</sup>: non-core businesses were *integrated upwards* into an Allfinanz Group since the mid-1960s – with the acquisition of the securities bank Schretlen in 1965, the collaboration with life insurer Interpolis since 1969 and the establishment of the finance company Lage Landen that same year, the foundation of the property developer Rabo Vastgoed in 1978, and the acquisitions of an asset management company (Robeco), a securities bank (Stroeve) and a venture capital company (Gilde Investment) in the 1990s and 2000s.<sup>790</sup> Contrary to ABN AMRO, Rabobank's core business is still with individuals and small corporate clients, as can be seen from the fact that it accounts for some 45% of all savings deposits and for almost 60 % of the loans granted to individual clients. The relative significance of interbank and securities transactions, by contrast, is far smaller (Klein, 1995: 67). Testifying to Rabobank's development beyond its narrow roots, by 1987 the banks's total outstanding loans in sectors other than agriculture exceeded those in the agricultural sector for the first time. By 2005, Rabobank's agricultural loans amounted to a mere 8% of total outstanding credit.

## **Strategy c Make State policy on economic citizenship by “fait accompli”**

### *i) Commercial banks*

During the 1980s, the Dutch government would assert its desire to reduce its role in the housing market, and eagerly participate in the deregulation of capital markets as well as other European “Single Market” objectives. During the heydays of polarisation, politicisation and participation, however, few parties could avow to this. In the shadows of the triumph of social-democratic civilisation aims, commercial banks did some of the government’s dirty geopolitical work: invest in a European vantage point conducive to the low-cost spill-over of international trends. By virtue of their early participation in European banking consortia and the Eurodollar markets, as well their growing involvement in the mortgage market, commercial banks in effect facilitated the making of policy by fait accompli by several State entities: not just the Dutch government, but also the European Court of Justice and the European Commission.

The European Court of Justice (ECJ) verdict in the 1979 “Cassis Dijon” case officially kickstarted the primacy of “mutual recognition” over “complete harmonisation” in European competition and integration law. “Mutual recognition” is a European governance response to the challenge of US-led globalisation; it entails that common concerns should be tackled in a manner that accommodates diversity and respects the institutional integrity and political autonomy of member States in all matters where uniformity and centralisation are not necessary or not possible (Scharpf, 2001: 13). Mutual recognition does not do away entirely with European-wide harmonisation of standards. Yet, it limits these standards to the bare minimum, and decisively lays the initiative with member nations – through the double principle of home-country control and minimal European harmonisation.

With its 1979 verdict, the ECJ could have invoked a mountain of trouble on itself. The European Commission had not come to similar conclusions yet; the threat of a panoply of immobilising lawsuits and political interventions was rife. That is, if it were not for the confluence of two happy accidents that helped push European collaboration in a constructive direction. There was the experimental, preparatory work done by European banking consortia since the late 1950s that had led to contiguous conclusions – reducing the potential burden on the ECJ to uphold European competition and integration law. And by the early 1980s, social-democratic governments in the large member nations had been voted out of power, facilitating the emergence of a new majority consensus within the European community: by default of more monetary and market integration the US and Japan would outstrip European countries’ growth and innovativeness.<sup>791</sup> Somewhat lagging the ECJ approach, the European Commission pondered on what basis a monetary union and European-wide system of market integration and capital deregulation should be based: complete harmonisation or mutual recognition? By the mid-1980s, the Delors-led Commission concluded that the principle of complete harmonisation approach was faltering, and mutual recognition was preferable.

How exactly did commercial banks provide the ECJ and European Commission with the ability to make policy by fait accompli? By virtue of their experimentations in European consortia since the late 1950s, banks paved the way for the practical superiority of “imperfect harmonisation” and “mutual recognition” across member states (e.g. Hertig, 1994; Ornito, 2007). In particular, German, French, Belgian and Dutch banks – the Deutsche Bank, Credit Lyonnais, Societe Generale de Belgique, and Amsterdam bank – pioneered experimental forms of European collaboration and integration, supported at a

distance by their respective central banks. They launched the “Bachelors Club” (1958)<sup>792</sup>, the European Advisory Committee (1963) and the European Banks International Company (1970), for several reasons, ranging from domestic market protection to a unified European vision (Slager, 2004: 99). North-American banks posed a serious threat to European banks’ previously unchallenged home markets; having followed their own multinational companies overseas, US banks now started to aggressively pursue the business of European multinationals. Thus, European banks wanted to have a platform of “mutual consultation” as to the handling of investment banking business of an international nature such as the Eurodollar markets; including the setting up of joint international branches in London. Also, partner banks wanted to prevent competition with each other in the home markets, as well as sharing the risks and costs of setting up international investment branches.<sup>793</sup> Furthermore, European banks wanted to position themselves favourably in the common economic and monetary union, or the envisioned “Europe bancaire” (Ross, 2002; Vries et al., 1999: 364).

The European banking consortia of the 1960s, 1970s and 1980s have been called flawed, and rather ineffective in the creation of a competitive Europe bancaire (Ross, 1998). That is undoubtedly the right qualification if one considers the discrepancy between the initial intentions of some of the consortia’s partner banks – a fully “harmonised” European joint-venture with own branches – and the ultimate demise of most European consortia in the 1980s. Yet, it is a less correct qualification if one considers some of the unintentional consequences of the banking consortia: particularly, the development of an informal tradition of “mutual recognition” from an initial tentative goal of mutual consultation. The mutual recognition principle from its very first use in the Treaty of Rome had been geared towards standardisation across professional communities (EEC, 1987). One of the more unintentional consequences of European banking consortia was the creation of a professional community – supported at a distance by members’ central banks – that could set the pace of administrative regulation rather than be dictated episodically by national or European State entities. As EC pressures for harmonisation of competition rules grew, banks managed to perpetuate their special status, maintaining up to 1981 that normal competition rules did not apply to them because they were entrusted with “the operation of services of the general economic interest” (Williams, 1994). By experimenting with different ways to fend off the US challenge and build a European bancaire ahead of forceful public pressures of European harmonisation, banks by fit-of-absentmindedness pioneered changes in European competition law – with implications beyond the Europe bancaire.<sup>794</sup>

In the wake of the liberalisation of international finance from the late 1960s<sup>795</sup>, it were banking consortia such as EBIC<sup>796</sup>, ABECOR and InterAlpha<sup>797</sup> who paved the way for a type of economic enterprise in Europe that was increasingly transnational – resulting in calls for a new European directive on Companies, and calls for member states to consent to minimal standards of mutual recognition.<sup>798</sup> One lesson the banking consortia learnt by the late 1970s is that a full-blown European joint-venture bank such as EBIC<sup>799</sup> – with its own branches in all member states – did not work. In other words, a full joint-venture – implying harmonisation of practice across all member-banks – was not practical. Yet, EBIC provided a powerful learning platform. Established in London, it encouraged member banks such as AMRO to establish their own branch in London, and acquire interests outside their home countries. What did work much better than European-wide harmonisation, was informal bilateral collaboration between for instance the Societe

Generale – a predecessor of FORTIS – and AMRO bank – predecessor of ABN AMRO. The two banks came to work closer together to facilitate a minimum framework of mutual recognition – facilitating a possible cross-country merger – in the European Community. While the merger between Societe Generale and AMRO finally did not happen, it unintentionally paved the way for another Belgian-Dutch banking merger, FORTIS. Given the long history of cross-border banking collaboration, and in anticipation of the formation of the European Union (1992), the Dutch Bank substantially loosened its restrictions on Dutch banks' home market power, which no longer was considered a threat given the larger competitive framework of the European Union.<sup>800</sup> Beyond mutual recognition between Benelux banks, the attitude of Dutch banks towards a entry of other European banks also evolved markedly. During the 1990s, Dutch banks had reacted defensively towards National Westminster's attempts to acquire Dutch Van Lanschot Bankiers and intrude the home market, forming a Dutch consortium. Yet, by 2007 the development of a pan-European tradition of mutual recognition had evolved to such an extent that the former Dutch champion ABN AMRO could be acquired by a pan-European (Belgian-Spanish-Scottish) consortium. In sum, the development of the mutual recognition principle in the EU has gone a long way since the first European bank consortia. IN the process, Dutch and European authorities have learnt to accommodate to the formation of a European competitive level-playing field at the pace of private banks as much as public regulators.

ii) *Co-operative Rabobank*

It was much harder for co-operative banks such as Rabobank to remain one step ahead of European regulation and be at the forefront of the development of the mutual recognition movement. The sheer variety of Co-operative legal forms in the European Community was bewildering; furthermore, home governments have long seen Co-operatives as purely domestic vehicles.<sup>801</sup> Thus, on the European and international scene, Rabobank had to follow the way paved by commercial banks. At the end of the day, this would not be such a bad thing for Co-operative banks. For one, it prompted the European Commission to create a level-playing field for commercial and co-operative banks, starting with the first European banking directive in 1977 – both were labelled European credit institutions henceforth.<sup>802</sup> It also prompted co-operatives such as Rabobank to learn from the experiences of commercial banking consortia and avoid marginalisation in face of the burgeoning triumph of the “liberal tradition” in the European Commission.

Up to the 1980s, Co-operative banks had been able to anticipate Dutch and EEC regional policy. Coinciding with the oil crisis, and the EEC taking up the mantle of regional policy promoter<sup>803</sup>, the purpose of Dutch regional policy from 1973 shifted towards goals of efficiency in fewer areas. The EEC in 1975 established the European Reconstruction Development Fund, with the objective to correct regional imbalances due to the predominance of agriculture, industrial change, and structural unemployment. This played right into the alley of Co-operative banks, who had long been promoters of the gradual modernisation of agriculture – including the shifting of agricultural workers to other industries, and who had been busy shifting their assets towards non-agricultural SMEs for a while now. Thus, in one regard, Rabobank led the way in facilitating European policy by fait accompli: the reform of common agricultural policy in response to the formation of a new geopolitical consensus around the “liberal” tradition – driven by a US looking for new horizons for its agricultural productivity. Holding the accounts of close to 100% of Dutch agricultural co-operatives, Rabobank facilitated a comprehensive

rationalisation of these entities' businesses, providing them with a low-cost, internationally competitive vantage point in European and worldwide dairy markets.<sup>804</sup> Thus when the European Community decided to freeze price-support measures in order to stop inflation and control production levels, Dutch agricultural co-operatives found themselves relatively well prepared. All the same, Co-operative banks' seminal role in regional and agricultural policy waned in the 1980s, for the simple reason that remaining regional disparities in the Netherlands had largely been reduced and agricultural co-operatives had gained a new maturity by the end of the decade (cfr. Bachler, 2001: 13).

Together with its uninterrupted mutual consultation in the UNICO consortium, Rabobank's continuous commitment to the reduction of regional disparities and agricultural modernisation ultimately would give it a competitive advantage in Europe; allowing it to make a significant contribution to the development of the mutual recognition tradition in the European Union. Thus, when the European Bank for Reconstruction and Development was founded in 1991, Rabobank's industry and regional expertise provided it with a good vantage point in the financial reconstruction of the Central and Eastern European food and agricultural industry. Ultimately, it allowed the bank to acquire a majority stake in one of the biggest agricultural and SME banks in Poland, Bank Gospodarki Żywnościowej, with the help of the European Bank for Reconstruction and Development (2008).

Beyond Europe, Rabobank proved rather successful in facilitating policy by fait accompli on the domestic front. The co-operative bank led the way in re-stabilising the mortgage market with its non-profit aims after the housing market crisis in the 1970s, the collapse of specialised mortgage banks in the 1980s and during the increasingly consumerist, credit-driven 1990s and 2000s. For instance, Rabobank has often been the champion of a reasonable mortgage rate at fixed long-term conditions - which protected mortgagees against the vagaries of consumerist fashions and macro-economic disruptions. All in all, during the last decade, Rabobank has been amongst the best performing European Co-operative banks, together with its Finnish, French and Spanish counterparts (Barros et al. 2006).

### *iii) Demise of specialised mortgage banks*

In the first half of the 1970s, rising inflation and optimism about the country's economic prospects led to a higher demand for inflation-proof investments, most notably housing property. In response, Commercial banks developed new types of mortgages that allowed consumers to convert credit into greater spending power. Savings banks as early as the late 1960s had diversified in mortgages. In order to tackle the increasing competition of these banks and spread their risks, some of the bigger mortgage banks branched out into various retail-estate activities, including property development and investment for their own account. Fuelled by high inflation and lagging interest rates, a real estate boom took place in the second half of the 1970s, which the mortgage banks profited a great deal of. The result was an explosive growth in demand for owner-occupier houses – by institutional investors and individual households – that could not be met by new supply in such a short time. House prices increased rapidly. While the property development and mortgage businesses of commercial and mortgage banks continued to expand, the Nederlandsche Bank remained impassive until 1977, when some restrictions were introduced to limit greater credit growth, with minimal effects. At the end of the 1970s, the second oil crisis and the breakdown of the Western monetary consensus hit the overheated Dutch housing market particularly hard. It is only then, in 1979, that the Dutch

Central Bank, fearing solvency problems, decisively curtailed the overheated housing market – among others by limiting the supply of mortgages and restricting practices of growth on credit.<sup>805</sup> All this came too late. By 1980, the Dutch owner-occupier market had collapsed completely (Van Dongen et al., 1982).<sup>806</sup>

When the boom burst, mortgage banks more than other banks felt the crunch. After all, contrary to mortgage banks, commercial, cooperative and savings banks could fund themselves with relatively cheap savings deposits, and keep their interest rates attractive after 1979.<sup>807</sup> Apart from the Rabohypotheekbank<sup>808</sup>, the biggest Dutch mortgage bank – owned by the co-operative Rabobank, none of the independent mortgage banks were able to weather the financial and regulatory turbulence of the early 1980s (Barendregt and Visser, 1997: 179-182). The Rabohypotheekbank had weathered the storm by sticking to its knitting, restricting itself to the core mortgage business, as well as by relying on its mother company's many branches to sell its bonds and attract private placements.

With the benefit of hindsight, and as long feared by the leadership of the Association of Mortgage Banks, the mortgage banks would pay for the lack of specialised prudential mortgage arrangements in the Netherlands. For instance, the Dutch government did not provide mortgage banks with the ability to finance their new real estate activities by mortgage bonds. Thus, instead of a risk-spreading exercise, real estate diversification turned out to be the principal cause of mortgage banks' demise during the 1980 real estate crunch.

#### **Strategy d Translate State policy on economic citizenship**

##### *i) Commercial banks*

During the heydays of social-democratic polarisation, political attacks on Commercial banks' "undemocratic" level of market control were rife. Criticisms notwithstanding, Dutch commercial banks' made great strides in not only the wholesale, but also retail markets, helping to bring the percentage of Dutch adults with a current account to virtually 100 percent by 1988 – less than 5 percent of Dutch workers were still regularly paid in cash. In the UK these figures were respectively 65-70 percent and 30 percent (Gardener and Molyneux, 1990: 87). Commercial banks' cooperation with Rabobank in providing a universal payment system to Dutch employees since the 1970s accounts for much of this retail banking revolution in the Netherlands.<sup>809</sup> As soon as polarisation waned, and the liberal tradition emerged triumphant, criticism on commercial banks died down. This allowed commercial banks to focus more on international wholesale banking and other high-yielding commission fee services, while becoming increasingly "universal" in scope.<sup>810</sup> During the 1990s and 2000s it became clear to ABN AMRO that this would not offer the desired long-term results. Most notably, ABN AMRO's relative lack of focus on retail banking in its first home market and its overstretch in its second US home market in time would come back to haunt it. ABN AMRO's cost structure soared during the 1990s, opening the way for the entry of a low-cost retail bank provider: the privatised State Postal Savings Bank which formed part of the conglomerate ING. ABN AMRO somewhat lost out on another breakthrough "low cost" retailing evolution: the emergence of insurance-banking conglomerates such as ING and FORTIS after the Dutch Bank's loosening of banking and insurance regulation in 1990. Contractual savings such as life insurances and pensions arguably became the most important State-sponsored vehicles of economic citizenship from the 1970s onwards, and certainly during the privatisation of pension provisions in the 1980s and 1990s.<sup>811</sup>

Yet, while ING and FORTIS acquired respectively 14.7 and 10.7 percent of the Dutch insurance market (by 2005)<sup>812</sup>, and were able to fine-tune their cross-selling capabilities in the process – making their branches much more cost effective and profitable, ABN AMRO was only a timid follower in this regard.

ii) Co-operative Rabobank

One key to Rabobank's success was its successful organisational adaptation to the demise of confessional boundaries, and the emergence of a unitary Christian-Democratic Party. In 1972, the Catholic and Protestant co-operative banks finally merged. Furthermore, Rabobank beat the commercial banks to the punch when it came to a new financial vehicle of economic citizenship: mortgages. And it was very competitive in the life insurance market. Long before the belated breakthrough of home ownership in the 1990s, Dutch policy makers had praised the potential of home ownership as an important road to economic citizenship, due to its important social benefits: a better spread of property, capital generation, a better social integration, distribution of wealth, familism, self-fulfilment and self-determination, more privacy and more decision power as to living conditions (Elsinga, 1995). By virtue of its most resilient mortgage bank, Rabohypotheekbank, and its tendency to treat customers not only on the basis of harsh economic profit ratios, Rabobank by the 1980s gained the reputation in government and Dutch Bank circles of being the rightful leader of the Dutch mortgage market.<sup>813</sup>

Paradoxically, the 1970s triggers of Rabobank's mortgage success – inflation, the rise rise of housing prices and the slower growth of the real average disposable income, had significantly dented the bank's potential regarding an older vehicle of economic citizenship: free savings. The fiscal privileges accorded to contractual savings since the 1970s and increasingly so in the 1980s also ate away at the Dutch free savings market, turning it in a relatively mature market. From about 50 percent at the beginning of the 1970s, the share of contractual savings reached a staggering 90 percent in the nineties.<sup>814</sup> Especially popular was the fiscally deductible life insurance product called "koopsompolis". Fortunately for Rabobank, its Catholic branch had long collaborated with Interpolis – a life insurance company formed in 1969 from among others a Catholic Farmer Union (KNBTB). Before the commercial banks, Rabobank developed "koopsompolissen" in cooperation with Interpolis, with the risk share going to the insurer and the savings share to the bank (Sluyterman, 1998: 219). Rabobank Group acquired Interpolis in 1990 to reap the fruits of more product integration and cross-selling services. Once this objective had more or less been reached, in 2005, Rabobank exchanged Interpolis for 37% of the shares in Eureko, the largest insurance group in the Netherlands.<sup>815</sup>

Rabobank's refusal to comprehensively cut bank its extensive branch network across the country, while long the object of derision among profit-minded commercial banks, has belatedly been revalued by politicians. The social-democratic party (PVDA) in 2005 launched a legislative proposal – the law "Crone" – to this effect; maintaining that every Dutch inhabitant should have a banking branch at its disposition within a radius of 3 km. Only Rabobank fulfilled this last condition.

Finally, by virtue of its leadership in the SME market, Rabobank, together with ING, is a champion of that distinctive vehicle of economic citizenship cherished by the European Union. Yet, all good things do not come from the European Union after all. As we discussed earlier, the protective silence of Dutch and European elites about immigration, and the gradual weakening of Dutch consociational traditions imparted a

declining ability to deal with outsider groups such as Muslim immigrants (cf. Muus, 2004: 265). By the 1990s, the protective silence was slowly evaporating to produce feelings of extremism. Yet, firmly associated with the social-democratic myth and the old boy club of Regent leaders, Rabobank's leaders failed to enact the first signs of growing extremity. As the commercial banks, Rabobank had neglected immigrant groups – for instance Turkish would-be entrepreneurs – in the inner cities. Albeit Rabobank was rather weak in the inner cities, this did not serve its image of consensus-enhancing vehicle too well. For by 1991, more than eighty percent of the breadwinners of Turkish and Moroccan origins and about 60 percent of Surinam and Antillean origins belonged to the lower economic classes. Only 35% of the autochthonous Dutch breadwinners, on the other hand, belonged to the lower classes (Roelandt, 1994: 184). It is only after the “happy accident” of the Fortuyn movement, which, shattered the protective silence in favour of a more Orangist government policy, that Rabobank started focusing on the target group of Muslim Immigrants – partly to reinforce its originally weak position in the cities, partly to reinvent its ability to integrate religious divisions in a confederal framework.

### **Strategy e Become a champion of national character**

#### *i) Commercial Banks*

To become a champion of Dutch national character one has to reinvent the Dutch legacy of “Dutch nonconformism”: reinforce local privileges and traditions by pioneering a low-cost and pragmatic geopolitical vantage point; a vantage point conducive to a spill-over of the benefits of emerging international standards, techniques and agreements.

The above historical success model essentially is a small nation legacy. The demise of ABN AMRO as a national champion can only be understood if one considers how the dominant part in the merger, ABN bank, failed to adhere to this small nation model since the international financial liberalisations of the late 1960s. For one, ABN bank was so rattled by prime minister's Den Uyl's overbearing social-democratic propositions, that it deemed the Dutch home market too small for its intentions from a very early stage onwards, when its domestic retail base had not been consolidated yet.<sup>816</sup> The more fundamental reason for the bank's final demise, was that, in spite of the post-WWII settlement in favour of the primacy of the EC for the Netherlands – the reconstruction of Dutch and European traditions of democratisation in parallel, ABN was still steeped in the old Dutch imperial-colonial legacy. ABN therefore considered the acquisition of a low-cost vantage point in the surrounding European Community countries – a second European home market – too mean an international object too. ABN since the late 1950s differentiated itself from AMRO, the Societe Generale and Dutch savings banks – constituent predecessors of FORTIS, and Rabobank by a less than wholehearted participation in European banking consortia (cf. Slager, 2004: 233). Indeed, ABN only halfheartedly participated in for instance EBIC, much in the same way Midland Bank, with its preference for a consortia of English-speaking banks, did (Ross, 2002: 139).

Perceiving more of a continuity with the British and US “liberal tradition”<sup>817</sup>, ABN felt attracted towards the universal shareholder capitalism myth; namely that becoming a world market leader solely depends on a company's superior market entrepreneurship, not the geopolitical and historical limitations of one's nation-state affiliation. Thus, ABN set sight on the US and by the 1990s South America<sup>818</sup> as its two

new home markets, creating very high expectations in the process amongst its increasingly internationalised shareholders.

After its merger with ABN in 1991, AMRO could not set the balance right; the former half very much dominated the merged entity's international strategy. The merger propelled ABN AMRO to the 16th position on the world list of banks in that year, prompting the bank to formally announce its first-tier international banking ambitions.<sup>819</sup> The Dutch market was taken-for-granted; ABN AMRO labeled itself "The Bank" in the Netherlands. Meanwhile, ABN AMRO was in danger of overstretching itself internationally. In the years ensuing the 1979 acquisition of Midwest-bank Lasalle, ABN's ventures in the US had looked like a stroke of good luck; the bank had been able to take advantage of historical regulatory impediments on US banks' interstate activities to acquire itself a strong competitive position in the Midwest.<sup>820</sup> During the 1990s, these impediments were largely abolished, making it much harder for ABN AMRO to withstand US home competition, and turn a profit. Many banks from larger, more ambitious nation-states – English and Japanese – exited from the US in those years; the general expectation was that to compete effectively, large interstate investments in a critical operational mass would be necessary (Tschoegl, 1987). The giant HSBC stayed, and so did the smaller ABN AMRO. In spite of its faltering efforts to bring LaSalle in the fold of Amsterdam corporate management (Westerhuis, 2004)<sup>821</sup>, ABN AMRO acquired other banking operations around Lasalle to become no less than the largest foreign bank in the United States.<sup>822</sup> In a further bid to adopt the "liberal" banking model, the bank moved its equity trading business to the City of London (1993).

Meanwhile, closer at home, ABN AMRO's attempts to acquire a European bank failed. It therefore settled for another large retail market outside the US, namely Brazil – with the 1999 acquisitions of Banco Real and Bandepe. ABN now had three home retail markets: the Netherlands, the United States and Brazil. While ABN AMRO was making a handy profit by the year 2000, its share price was seriously lagging behind. One of the main reasons for this was that, in the eyes of institutional investors, The Bank had not managed to become a first-tier international bank, fuelling evaluations of its international ambitions as "unsustainable" and a case of "overstretch". All the more since ING and FORTIS had emerged on the domestic horizon in the 1990s, fortifying their shares in the Dutch retail, SME and insurance markets. The latter two banks' choice to expand internationally with low-cost, pragmatic propositions more in tune with the long-term vantage point of a small European nation. Most notably, ING's and FORTIS' hedging of bets across the combination banking-insurance in complementary international markets had earned them a better share price performance.<sup>823</sup>

Devoid of this low-cost vantage point, ABN AMRO faced a soaring cost structure, which aggravated matters in institutional investors' eyes. ABN AMRO's management reacted by announcing the closure of a third of its Dutch branch network and a quarter of its Dutch retail operations staff. It had done this, because it did not accept the lessons drawn at the end of the 1990s by for instance Barclays: European banks need to scale down their investment bank operations to lower-margin fixed income, Treasury and commodities markets. In another desperate move, ABN AMRO after a long battle with Italian authorities and competitor banks, finally acquired the European bank it craved, Antonveneta. This pricy acquisition proved a Pyrrus victory, and ultimately dealt ABN AMRO the death blow. By virtue of its embrace of universal shareholder capitalism, US private equity firm TCI deemed ABN AMRO so weakened and overstretched, that I

demanding no less than the split up of the bank in service of the ideal of shareholder value maximisation. With ING refusing a merger in 2007, ABN AMRO's game as an independent bank was up.

In sum, ABN AMRO resolved to play cavalier seul and become a world leader in investment banking, even though the success model of the small nation to which it was affiliated was far less grand – relying on low-cost, international spill-overs rather than home-grown world market innovation and domination.

Arguably, FORTIS belatedly also overplayed its hand. This champion of a core part of Old Europe – the Benelux, with origins in the savings bank movement and Belgian haute finance, was long renowned for its gradual, complementary expansion. Under pressure from institutional investors to outgrow its modest, regional ambitions FORTIS, contrary to ING and Rabobank, overexposed itself to subprime packages sold by US banks. The losses incurred in this reckless move are now putting great strain on the feasibility of FORTIS' participation in the European consortium that acquired ABN AMRO in 2008.

ii) *Co-operative Rabobank*

At the beginning of the 1970s, Rabobank's lack of international presence was no cause of concern. Of the four major players in Dutch banking – ABN, AMRO, NMB and Rabobank – only one, ABN, had offices abroad in the early 1970s.<sup>824</sup> Following the herd of commercial banks, Rabobank first took a stake in the consortium bank London and Continental bank (1972), and started an ultimately short-lived joint venture with Bank of America - Raboamerica International (1974).<sup>825</sup> Reflecting the limitations of the Co-operative legal form – in which the control of capital ultimately is with local banks, leaving the central bank little financial leeway to engage in costly international acquisitions – Rabobank developed a correspondence network across the EC in alliance with UNICO – the consortium of Northern European Co-operative banks founded in 1977. One unintentional breakthrough moment for Rabobank central office's internationalisation plans was the approval of a guarantee system across local banks in the wake of the mortgage and energy crises in 1980. This cross-guarantee system rendered all local banks and daughter companies within Rabobank group mutually accountable for each other's liabilities. At the end of the day, it gave the central bank not only greater supervisory powers, but also a greater measure of strategic and financial leeway. Added to its virtually impregnable retail and SME basis in the Netherlands, this spectacularly increased Rabobank's solvency, catapulting it to the highest possible international credit rating – a "Triple A" rating.

Under pressure to maintain this high rating, and with the advantage of a capital and reserve basis that was growing faster than total assets, Rabobank's central management in the early 1980s also felt that the Netherlands was becoming too small for its ambitions (Pohl and Freitag, 1994: 787).<sup>826</sup> Yet, contrary to AMRO and ABN, Rabobank's internationalisation strategy remained far more gradual and grounded in its domestic, long term strengths. Foreign activities from the beginning in the 1970s served one purpose: to facilitate domestic clients' own internationalisation activities and broaden Rabobank's domestic competitive position (De Boer and Graafsma, 2002: 113). To stay with the times – the emergence of a G7-backed "liberal democracy" consensus, management in the 1980s decided to open offices in a number of major OECD countries. Beyond this very modest aim, Rabobank made its first major international acquisition in 1983. By virtue of its relations in the UNICO network – particularly German DG bank and

Spanish Banco Popular, Rabobank was able to acquire German ADCA.<sup>827</sup> The bank started push more for acquisitions in the latter half of the 1990s, faced with the rising costs of its foreign branch network.<sup>828</sup> This rather ambitious reorientation initially was not successful.<sup>829</sup> For a moment, it seemed Rabobank did not have an international strategy after all.<sup>830</sup> Yet, with the benefit of hindsight, the bank did develop a solid internationalisation platform, centred on entering strategic alliances with UNICO-partners, and opening branch offices in Europe, North American, Asia and South America to serve Dutch SME customers. From a position of strength, the bank also made a few opportunistic acquisitions of agricultural and SME banks such as Irish ACC Bank, US Valley International Bank, Polish BGZ and Paraguayan Banco Regional. Rabobank also very successfully copied ING's low-cost internationalisation formula of Internet-banking, although closer at home: in Belgium. Finally, in 2005 Rabobank integrated its insurance daughter Interpolis in the Dutch EUREKO group, a European insurance company which is expanding in eastern and southern Europe.

By 2007, Rabobank ranked as the 24<sup>th</sup> biggest bank in the world – discounting insurance business, compared to ABN AMRO that was ranked 13<sup>th</sup>, ING bank that was ranked 15<sup>th</sup>, and FORTIS that ranked as number 21.<sup>831</sup> In terms of tier-1 capital, i.e. the core measure of a bank's financial strength from regulators' point of view<sup>832</sup>, Rabobank advanced the other Dutch banks, however, with its 19<sup>th</sup> position, followed by ING in 20<sup>th</sup> position.<sup>833</sup> The bank was also considered amongst the safest banks in the world by several international rating agencies. The strength of Rabobank's international position, however, has always derived from its domestic position. The bank's management from about 2003 onwards, was able to reinforce this position again. In the wake of Fortuyn's movement, which argued that the Netherlands had become disconnected from its roots in religious traditions (Fortuyn, 2002b), and steeped in relativism after the triumph of liberal capitalism (Fortuyn, 1997: 12), the bank increasingly emphasised its "Orange" character – and business label. Contrary to other banks and multinationals which may have lost touch with their country of origin and sense of purpose (Fortuyn, 1997: 16-18), Rabobank was positioned as an entirely grounded company. A company whose mission was for instance to give Dutch Muslims a place in the bank and society.

In sum, while entering the mainstream of the banking world, Rabobank more than held its on as a national champion of the Dutch success model of Dutch nonconformism, on a par with FORTIS, although only second to ING. If the threat of food shortage would become more acute again in the coming decade, and national globalisation were to become an obsolete term, the bank may well emerge as an uncontested national champion.

## **Strategy f Become a champion of the national economic interest.**

### *i) Commercial Banks*

Commercial banks' role as champions of the national economic interest was greatly enhanced during the period 1968-2007, albeit as much due to management trying to escape domestic limitations than by virtue of a greater commitment to the domestic economy. By the mid-1970s, commercial banks such as AMRO held prominent positions in the Dutch network of interlocking directorates. By 1996 it were primarily top managers of non-financials that occupied commissioner positions on bank boards. Bank directors did not use directorates anymore to monitor and direct the Dutch economy. On the contrary, banks' own Boards of Directors act as rallying points - clubs - for the new non-financial "captains of industry" (Fennema, 2004: 44). This transition was the result of a remarkable

individualisation of banks' interest group politics during the 1970s and 1980s, in face of growing domestic criticism. By the 1990s, the reality of economic transnationalisation had become so ascendant that not Dutch banks but foreign banks were seen as the real menace to a sound financial system, that is a financial system working in the national economic interest.<sup>834</sup> This led to the renewal of the Dutch network of interlocking directorates in the 1990s and 2000s. In this new network Dutch captains of industry – the new generation of Regent capitalists – congregated, often by virtue of their directorships in commercial banks.

During the late 1960s and early 1970s, strong growth and increasing concentration in the banking sector led to criticism of the “corrupting role” played by commercial banks. Banks came under sustained attack over their supposedly « undemocratic » level of control on the domestic market.<sup>835</sup> According to several leaders of the breakthrough movement, banks were “spiders” in the web of Dutch power relations, as the great number of directorships of bank managers in large companies and the historical links with the policy establishment demonstrated (cf. De Vries et al., 1999 : 351; Helmers et al., 1975).<sup>836</sup> Especially the managing directors of the two main Commercial banks – AMRO and ABN – were found to hold pre-eminent positions in Dutch economic life. Ultimately, this criticism came high on the agenda of the social-democratic Prime Minister Den Uyl (1973-1977), whose cabinet's motto was “the equal spread of knowledge, income and power”. The Dutch bank had started to respond to these pressures as early as 1971, by publicising a number of unofficial directives that prohibited mergers of commercial banks with insurance companies or mortgage banks, and restricted bank participation in the equity of other companies to 5%. Some of these directives were later codified in a 1978 banking law.<sup>837</sup> Also, a new company law was voted – De Wet op de Ondernemingsraden (1979) – which aimed to democratise control of the companies by means of an autonomous Employee Council. Partly due to the strong collaboration of banks in the cartel organisation “Nederlandsche Bankiersvereniging”, profit margins and fees never came under pressure. Also, the 1979 law only applied to domestic activities; allowing banks to pursue international businesses at a distance from domestic democratisation pressures.

This does not mean the international businesses of ABN and AMRO were not targeted for criticism; they were, particularly for their dealings with the white minority regime in South Africa. For instance, international organisations like the World Council of Churches, which had called for a boycott of the South African regime, compiled a blacklist of Western European companies maintaining ties with South Africa. ABN figured on that list. While anti-apartheid feelings were tangible in most Western countries, they were especially vociferous in the Netherlands. For the ongoing depillarisation of the Netherlands entailed the destruction of a “living-together-apart” system that to some extent had parallels with the South-African apartheid system. Confronted with increasingly vociferous anti-apartheid groups, ABN decided to pursue a more cautious policy and stop trading in “Kruger rands”.

ABN had tried to escape domestic criticism by turning the US, and other faraway outlets into new home markets.<sup>838</sup> AMRO, by contrast, had stayed closer to its domestic and European roots. By the mid-1970s, AMRO was at the top of the hierarchy of Dutch financial hierarchy.<sup>839</sup> AMRO was also the core of the so-called transnational European network of interlocking directorates in 1976.<sup>840</sup>

Criticism on both banks died down somewhat during the 1980s, a difficult period of retrenchment for ABN and AMRO. While banks were accused of excessive caution – leading to the adoption of various government measures such as loan guarantees to encourage the provision of risk-taking capital, the Dutch Bank was conscious of ABN and AMRO’s increasing international weakness. Faced with the growing need to be influential on both an international and domestic scale, the two most important Commercial banks in the Netherlands, ABN Bank and AMRO Bank as early as the late 1970s had expressed the wish to find a merger partner. Both banks felt too small to have a sustainable future. AMRO Bank found it always more difficult to meet the needs of an increasingly international business community in the Dutch wholesale banking market. Arguably, ABN Bank had been more successful internationally: it had expanded its international business mainly by establishing new branches and taking over foreign banks. All the same, ABN’s international position was not very sustainable either. The bank had based its international expansion on the issuing of new shares, and the dilution caused by repeated issues translated in falling share prices. Meanwhile, domestically, both banks were in danger of being dwarfed by the Postbank and Rabobank; ABN Bank had a marketshare of only 7 percent, while AMRO Bank barely did better with 9 percent.<sup>841</sup>

ABN’s and AMRO’s wish to merge into a new champion of the national banking interest was stopped short by the so-called Structural Policy introduced by the Dutch Bank in 1974. With the ascendancy of a neo-liberal government in the early 1980s, the lobbying of the bankers Nelissen of AMRO and Hazelhof of ABN in the Ministry of Finance finally bore fruit. Soon cracks in the armour of Structural Policy appeared, accelerated by increasing competition of foreign financial institutions in the Dutch market. After an earlier deregulation round of mergers between banks and insurance companies, the Dutch Bank in 1990 finally lifted the prohibition on bank mergers. The consensus among Minister of Finance Duisenberg and the three largest political parties – the christian-democrats, social-democrats and liberal-democrats – was that the market for financial services had become “global”.<sup>842</sup> Thus, all reacted favourably to the merger of the ABN and AMRO Bank in the new entity ABN AMRO (De Vries et al., 1999).<sup>843</sup> The regulatory changes were timely enough to counter the threat of “foreign invasion”: while some 13 per cent of total banking assets in the Netherlands were owned by foreign firms in 1988, this percentage had gone down to 7.7 per cent by 1999. (cf. Belaish et al.2001). For ABN AMRO, however, regulatory changes did not lead to a decisive turning of the tide. Not only had the ABN AMRO lost half of its key domestic connections by 1996 – since 1976.<sup>844</sup> It had also lost its pivotal transnational position (Carroll and Fennema, 2002 : 410-412). FORTIS and ING Group now advanced ABN AMRO in degree of centrality in transnational networks of interlocking directorates (Heemskerk, 2001: 54, 62-63).

During the 1990s the so-called Anglo-Saxon “corporate governance debate”, in particular the “universality” of shareholder democracy, gained resonance in the Netherlands. The main question asked was whether giving shareholders more decision-making power and abolishing the increasingly distrusted Supervisory Board construction would open up the oligarchical governance structure of Dutch economy and render large companies more democratically accountable. For many years, the debate – which most applied to ABN AMRO – seemed to take a typical “old boys club” turn.<sup>845 846</sup> By 2007, however, things took a dramatic turn. Unable to defend itself any longer against the turmoil caused by private equity companies who demanded a split of the company in the

name of shareholder value maximisation, ABN AMRO was taken over by a European consortium of banks.

ii) *Co-operative Rabobank*

The story of Rabobank's efforts to become a champion of the national economic interest is essentially the story of commercial banks recounted from the less conspicuous vantage point of a not-for-profit underdog. Rabobank also was a pivotal link in the Dutch network of interlocking directorates uncovered in the mid-1970s; yet it catered to organisations steeped more in the tradition of proportionality than in international capitalistic interests – organisation such as agricultural co-operatives, SMEs and the SER. In anticipation and response to the 1979 Law on Employee Councils, Rabobank tried to reinvent its dealings with both local banks and its members.

Criticism on commercial banks increased their openness to calls for equal access to banking interest groups. In a first stage this helped Rabobank and the savings banks to gain access to a so-called Discussion Group of the joint banks (College van Overleg, CVO, 1971). In this discussion group, Commercial banks, Rabobank and savings banks “exchanged thoughts” about banking. Still, a more important “old boy banking club” existed in the banking sector, the Netherlands Bankers’ Association – “Nederlandsche Bankvereniging” – which Rabobank did not gain access to. By the end of the 1980s, criticism on cartel practices soared to the point that EC regulation rendered cartel agreements unlawful. Thus, the Netherlands Bankers’ Association was discontinued in 1989. On the initiative of amongst others Wijffels, the new president of the Board of Directors of Rabobank, a new body -called the Dutch Association of Banks – Nederlandse Vereniging van Banken – was established, in which Rabobank – at least officially – from the beginning took its place as an equal amongst equals.<sup>847</sup>

During the 1970s, Rabobank still managed to retain some of the moral high ground. For instance the Catholic leader Bosman repeated the arguments against international financial globalisation, and in favour of a real Dutch economy - arguments he first made as a leader of the Catholic Co-operative Bank in 1970, now representing united Christian-Democratic opinion: “high inflation leads to a war of all against all and to the overthrowing of democratic regimes”. It also leads to the “destruction of social cohesion”<sup>848</sup>, the demolition of the cultural and technological capacities of the nation and societal stagnation (Bosman et al., 1976: 11). By contrast, during the 1980s, heydays of neo-liberal austerity, Rabobank went through something of an identity crisis. This period coincided with the demise of the Green Front, and with a change in government policy from “backing losers” to “picking winners” (Knoester, 1989: 154). In response, Rabobank all but gave up on the political resonance of its historical real economy link. Relinquishing the bank's distinctive interest group voice, the president of the Board of Directors, the social-democrat Wijffels, announced that, now Dutch farmers had become “emancipated”, Rabobank would never be a political organisation anymore.<sup>849 850</sup> This does not mean Rabobank's identity crisis was over. During the early 1990s, Rabobank's central management launched a broad discussion on the relevance of the Co-operative identity. After more than four years of discussion, local banks came to a different conclusion than their English building society counterparts: they would remain loyal to the Co-operative form. This legal form evidently limited Rabobank during the heydays of international “liberal capitalism”. At times, it drove the bank dangerously close to becoming the champion of a countervailing social-democratic myth – customers should be helped no matter how unprofitable they are or how much it costs. Yet, attacks by the Fortuyn

movement on the vacuousness of the liberal tradition and the “fatherlandless” of Dutch elites (Fortuyn, 1997: 16-18), provided the bank with the opportunity to reinforce its “champion of the national economic interest” credentials. In the best case it may take several years, however, for Rabobank to successfully reinvent a “real economy” link between its 1.5 million members and co-operative strategy.

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<sup>723</sup> The Werner Report, prepared in 1970, presented a plan for the attainment of economic and monetary union. In March 1971, following the Werner Report, Member States expressed “their political will to establish an economic and monetary union”. Several important moves followed: in 1972 the ‘snake’ was created; in 1973 the European Monetary Cooperation Fund (EMCF) was set up; and in 1974 the Council Decision on the attainment of a high degree of convergence in the Community and the Directive on stability, growth and full employment were adopted. Yet, by the mid-1970s the process of integration had lost momentum under the pressure of divergent policy responses to the economic shocks of the period. In 1979 the process of monetary integration was relaunched with the creation of the European Monetary System (EMS) and the European Currency Unit (ECU). The success of the EMS in promoting its objectives of internal and external monetary stability has contributed in recent years to further progress, as reflected in the adoption, in 1985, of the internal market programme and the signing of the Single European Act.

<sup>724</sup> The Washington consensus emerged in the late 1980s and 1990s, in a context of a failed Soviet model of Statism and the apparent success of the more open “Asian” model. The Consensus entailed a set of monetarist propositions about the policies most likely to promote economic growth. These propositions more or less summarized the view then held by most of the senior officials at the International Monetary Fund, the World Bank and other international development organisations. Major elements included: (a) fiscal discipline in the form of balanced public sector budgets, (b) liberalization (deregulation) of domestic financial markets, international trade flows, and international capital flows, (c) privatization of the means of production, and (d) the encouragement of competition (Williamson, 1990).

<sup>725</sup> This trade union configuration remained more or less stable in the decades thereafter (Teulings and Hartog 1998: 268).

<sup>726</sup> Against the background of the social-democratic party losing ground in the 1959, 1963 and 1967 elections, a new movement emerged in the second half of the 1960’s and 1970’s, often coined the “new left” (Gladdish, 1991: 52-53). The new left movement operated as a loose and somewhat fluid collection of individuals who met regularly, wrote books and made public pronouncements. New left promoters came from more intellectual occupations than the social democratic party’s incumbents. When its sway in the party’s executive grew from 1966 onwards, new left promoters focused on greater democratisation both within the party (PvdA) and throughout public life.

<sup>727</sup> This trend of increasing independence of the individual was strengthened by the rise of discretionary incomes. Achievement oriented aspects of social roles, rather than the ascriptive ones which were basic to pillarized structures, gained the upper hand.

<sup>728</sup> So, in 1965, the episcopate even withdrew that part of the 1954 edict which had placed the socialist NVV off limits for Catholics: “without wanting to express ourselves about the substance of contemporary socialism in our country, we note with satisfaction that the views toward Church and religion have become much more moderate in the present-day NVV and that a noticeable effort toward improved understanding is being made” (De Volkskrant, September 9, 1965, quoted in Windmuller, 1969: 126).

<sup>729</sup> (De Hond, *Algemeen Dagblad*, May 20<sup>th</sup> 1986). That is although Catholics’ principles of corporate subsidiarity and personalism were meant not as the authoritarian imposition of norms, but as a way to avoid exactly that, but without incurring unnecessary friction in the process (Gladdish, 1991: 42).

<sup>730</sup> Elections were not anymore about who would ensure the continuity of an hitherto accommodationist system, but about the acquisition of a specific mandate to govern (Gladdish, 1991: 58-60).

<sup>731</sup> A first, more tentative wave of professionalisation had taken place a decade earlier.

<sup>732</sup> i.e. the belief that the realisation of socialism is dependent on sweeping institutional changes

<sup>733</sup> This difference was apparent even amongst the rank and file. A survey conducted in 1967 confirms the differences between Dutch Catholic and Calvinist voters regarding the preferred relation between State and religion. While only 35 per cent of Catholic voters was against and 52 per cent in favour of the separation of politics and religion, these figures amounted to respectively 80 and 14 per cent for Calvinists. Attitudes of members of the Dutch Reformed Church – the origins of the old regent class, on the other hand, were strangely similar to those of the Catholics, with figures of respectively 35 and 54 per cent (Bakvis, 1981: 166).

<sup>734</sup> *Sociaal en Cultureel Rapport 1998*: 139

<sup>735</sup> As to the relation between religion and voting behaviour (and also income class), the following figures speak for themselves. In 1970, about 56 percent of the Dutch higher classes were affiliated to the catholic (33 %) or protestant-reformed church (23 %). At least 32 percent of the higher classes, 42 percent of the lower middle classes, and 48 percent of the working classes showed a voting preference for a confessional party in 1970 – the catholic party KVP (21,9 %) and the reformed parties ARP (8,6 %) and CHU (6,8 %) together won a parliamentary vote of 36,8 percent in 1971. At least 10 percent of all members of the higher classes, 20 % of the lower middle classes, and 39 percent of the working classes in 1970 showed a voting preference for the socialist party PVDA, which obtained 24,6 % of the parliamentary vote in 1971. Finally, at least 40 percent of the higher classes, 16 % of the lower middle class, and 6 % of the working class showed a voting preference for the liberal party VVD, which in 1971 obtained 10,3 % of the parliamentary vote.

In 1996, the figures had changed somewhat. Only about 32 percent of the higher class was affiliated to a denominational church. Some 17 percent of all members of the higher classes, 20 percent of all members of the lower middle class, and 13 percent of all members of the working class, voted for a confessional party – the confessional party CDA won 18,4 percent of the parliamentary vote in 1998. On the other hand, at least 46 % of the Dutch higher class, 19 percent of the lower middle class, and 18 percent of the working class voted for the liberal party VVD – which obtained 24,7 % of the parliamentary vote in 1998. Finally, some 18 percent of the higher class, 22 percent of the lower middle class, and 42 % of the working class voted for the socialist party PVDA – which obtained 29 % of the parliamentary vote in 1998. The two relatively new parties of a left-liberal (D66) and left-green (Groen Links) signature together obtained more than 16 percent of the parliamentary vote in 1998.

<sup>736</sup> What happened to Dutch government expenditures during the 1960s and especially 1970s was striking in Western European comparison. While the share of government expenditures in for instance UK national income declined enormously from the late 1940s onwards to grow moderately during the 1960s and 1970s, the share of Dutch government expenditures grew substantially in the 1960s, and exploded in the 1970s to approach WWII levels (see Appendix F).

<sup>737</sup> Lord Kahn. 1976. "Thoughts on the Behaviour of Wages and Monetarism", *Lloyds Bank Review*. January : 8.

<sup>738</sup> CDA, 1987. *Discussienota over de verantwoordelijke samenleving*.

<sup>739</sup> For instance, despite the 1970 split of more conservative Democratic Socialists away from the PvdA, the party did better in the 1972 election, when, as the dominant party within a progressive alliance with smaller left parties, it eventually regained office.

<sup>740</sup> Also, the net investment rate, which had decreased from seven percent in the decade before the first oil crisis to 4.6 percent in the second half of the 1970s, slumped to a mere two percent.

<sup>741</sup> The most important research document it has delivered since the end of WWII is the "Central Economic Plan". Since 1961, it has also consistently published a "Macro-Economic Outlook". Both reports have become cornerstones of Dutch consociationalism.

<sup>742</sup> Dutch monetary policy in the period 1950-1979 was inspired by Keynesian economic theories: from 1950-1959 the conjunctural budget norm, and from 1959-78 the structural budgeting norm. This changed completely in the 1980s, when monetarist theories supplanted their Keynesian counterparts: from 1983-1993 the real deficit norm, and from 1994 onwards the index-related budgetary norm (Zalm-norm)

<sup>743</sup> This was much to the chagrin of France, who wanted a French candidate. Still, a compromise was agreed upon whereby Duisenberg would serve for at least four years, upon which the Frenchman Jean-Claude Trichet, director of the Banque de France, would take over.

<sup>744</sup> Some of these measures were later codified in the 1978 banking law (Wet Toezicht Kredietwezen).

<sup>745</sup> „De opinie van VNO en NCW is eerder in het jaar (1974) ondersteund door de president van de Nederlandsche Bank - dr. Jelle Zijlstra - die in zijn jaarverslag een pleidooi houdt voor het herstel van het primaat van de particuliere sector. Een loonsomstijging die een redelijke vooruitgang biedt voor het reeel beschikbaar inkomen en een niet verder dalen van de rendementen van de investeringen zou een wezenlijke bijdrage zijn tot bestrijding van de inflatie en tot herstel van de werkgelegenheid, aldus Dr. Zijlstra. Zijn opvatting wordt hem niet in dank afgenomen door de vakcentrales“ (Verbond van Nederlandse Ondernemingen, 1975: 31).

<sup>746</sup> Fortuyn took advantage of an unexpected political opportunity. In the previous eight years, a left-right coalition led by the sober, moderate former union leader Wim Kok had perfected Dutch consensus politics, bridging old ideological divides for the sake of finding business-like solutions. ON the issue of economic growth and state finances it had done well enough for the governing parties to coast to victory in the 2002 elections. But, by default of a credible opposition by Christian Democrats or another Orangist alternative, "The Hague" had become a caricature of a closed, incestuous establishment out of touch with the people. Fortuyn attacked the "mess" - "puinhopen" - left by the elitist "purple" government (Fortuyn, 2002a). For years Fortuyn, an old Marxist

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turned Orangist, had lamented the "relativism" of the Dutch who were no longer interested in their own heritage and no longer knew their history (Fortuyn, 1997: 7). Disconnected from its roots in religious tradition after the anti-authoritarian revolt of the 1960s, the Netherlands had become an orphaned society (Fortuyn, 2002b). The global triumph of liberal capitalism encouraged such relativism, tempting people to turn life into a party without higher purpose (Fortuyn, 1997: 12). Businesses operating in global networks lost touch with their country of origin, and the Dutch elite was becoming "fatherlandless" (Fortuyn, 1997: 16-18). To the arrival of culturally different minorities, the Netherlands responded with the typically relativist notion of the "multicultural" society, used as a magic formulae of "live and let live" (Fortuyn, 1997: 39). Regarding muslim immigrants, Fortuyn was firm in showing the flip side of "total football": the Netherlands was totally "full" (Lechner, 2008: 72-75).

<sup>747</sup> A Dutch TV show in 2004 organised a poll to determine the greatest Dutchman of all time. Remarkably, William of Orange lost out to Pim Fortuyn. The poll was taken by professional observers as a sign that the Dutch public was looking for heroes who would confirm shared norms and help express pride in local traditions as response to globalisation (Veltman, 2004).

<sup>748</sup> The term "Dutch disease" was coined to denote the practice of using natural gas sales to build an over-generous social security system (VNONCW, 1997a: 45).

<sup>749</sup> While the PvdA went back to a less polarising coalition strategy after the 1981 crisis, the liberals (VVD), in coalition with the Christian-democrats (CDA), became increasingly bullish (Van Thijn en Van Wezel, 1986). Confronted with high unemployment rates, and a growing climate of political disillusionment and an economic cul-de-sac, the coming to power of the new prime minister Lubbers (CDA) ushered in a new democratic tradition. This tradition was couched in technocratic terms and slogans such as "no nonsense" "necessary cut-backs" or "do the job". The new governing purpose was to reduce "the political" and to make the State "recede". (Daalder, 1990 : 249-250). More responsibility had to be laid with business life, societal groups, families and individuals. Competitive spirit was in again; new leaders had to be "go-getters", Dutch citizens were presented as "workers" with "rolled-up sleeves", and "welfare entitlements" became "welfare allowances". Meanwhile, a few ingrained Dutch policy traits were revived : a modern version of the high-handed Regent tradition, of the 18th and 19th century, a conscious depoliticisation of political choices, an outspoken assumption that it was the "government that governed" and no-one else. The media, on the other hand, seemed to adapt without too much resistance to this new situation.

<sup>750</sup> In conjunction with employers' changing attitudes, the tax treatment of households has evolved to accommodate the belated advent of female emancipation and (part-time) employment (see Pott-Buter and Tijdsens, 2002). From the start of income taxation in 1914 to 1972, the basic principle was to tax the incomes of married persons as one income, although some changes were made to the way they were added, initially (1941) to influence the level of taxation between couples and single persons and later (1962) to stimulate the employment participation of women. From 1973, the income from labour of married women was taxed individually (from 1976 extended to disability benefit) while all other types of income and tax deductions not related to labour still had to be declared by the man or, later, the highest earner in the household. During

the period 1973–1999, several important changes were made to the practice of applying the principle with important effects on female (part-time) employment participation and on household formation. Under certain conditions, people living together without formal marriage can since 1998 opt for "fiscal partnership" and be treated on the same basis as married couples. The number of such new partnerships, however, remained very limited during the period under study and started to increase only after the major revision of the tax system in 2001, which enabled tax optimisation across partners (Atkinson and Salverda, 2005: 887).

<sup>751</sup> Lacking public support, the unions eventually settled for a 3-per-cent wage cut and a commitment to reduce the working week to 38 hours in 1986. Government expenditures fell from 57.8 % of GDP in 1983 to 51.7 % in 1990.

<sup>752</sup> The US' balance-of-payments deficit proved a major wedge that undermined the cohesion of the Atlantic partnership, as European governments began to complain about the international transmission of inflationary pressures stemming from the undisciplined economic policy of US authorities (Battilossi, 2002).

<sup>753</sup> Contrary to the German Mittel Europa predilection, the French Europe is necessarily Western Europe. Only Western Europe can attain French state qualities and become coherent enough to act decisively. This explains why it is unacceptable to the French to have a Europe with an unclear border or unclear membership.

<sup>754</sup> Through the commercial consolidation of the European Union and in particular through NATO, the US has tried to manage its Empire of Liberty stake in a way that makes it possible to stay on the continent with reduced effort.

<sup>755</sup> Contrary to the US, the British government – led by Thatcher – took a brutally negative view of German unity and European integration, at the price of losing influence. Nevertheless, beyond Thatcher, a traditional British

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angle on the German Question had long been that division was unnatural and unity was bound to come some day. The important thing was to avoid it coming about as a Soviet-German deal at the price of Western security. (Morgan, 1987: 88).

<sup>756</sup> Interestingly, Eastern Europe increasingly entered the French picture in the late 1980s; but not as not as a part of the acting Europe, but as the mission, as the task for Western Europe – the mission of the European Community to act and speak in the name of the East Europeans. Through its an unfortunate location and a tragic, undigested history, the biggest Mittel Europe country, Poland, confirmed and would keep confirming this rather patronising mission (Waever, 1990).

<sup>757</sup> In 1982 the budget deficit of the Dutch government stood at 10 percent of GDP, up from 3 percent between 1969 and 1973 and 4 percent between 1974 and 1978 just over 4 percent (Van Bottenburg, 1995: 189).

<sup>758</sup> The embrace of active labour market policy, sometimes called “flexicurity”, by centre-left governments in f.i. the Netherlands can be seen as an extension of the logic of the competition state, as internalising the demands of more internationally active and mobile capital, embracing marketisation and openness, and pursuing policy in line with the purported realities of globalisation (Cerny, 1997).

<sup>759</sup> This shift was further consolidated with the 1992 Agreement on Social Policy, an annex to the Maastricht Treaty, which stressed the aim of respecting national specificity.

<sup>760</sup> The French business-government relationship has changed dramatically as a result of the search for more European integration from 1983 onwards (Schmidt, 1996). The tensions between two competing strands of economic management policy, that is, of dirigisme (state direction) of the economy and liberalism, with its greater emphasis on the market, came to a head in 1983, when the socialist government, faced with abandoning either major elements of its dirigiste policies or the EC (and in particular the EMS that it had joined in 1979), decided to remain in the EC. (Loriaux, 1991). French exceptionalism could not last long in an increasingly interdependent global economy and in an integrating Europe. The strict monetary policies and economic austerity program that diminished government resources almost guaranteed the further liberalization of the economy, since, no longer able to stimulate industry through demand, governments had to turn to more supply-side measures in order to improve the competitiveness of French industry, with deregulation a top priority. (Poncet and Barbier, 1989; Schmidt, 1988) By the 1990s, the traditional dirigisme, in which French governments set macroeconomic policy relatively independently of the international economic climate and engaged in “micromanagement” of the microeconomic sphere, had ended.

<sup>761</sup> The premise of the White Book was the realisation that the economic and social problems which emerged in the aftermath of the oil shocks of previous decades and the currency crisis in the beginning of the 1990’s, were largely of member-states’ own making. The White Book became the ideological, political and analytical base upon which a co-ordinated European approach to employment was developed.

<sup>762</sup> According to the OECD (1998: 41), the “wage moderation for jobs” approach pioneered in the Wassenaar agreement was the single most important element of the “Dutch model”. It ensured pay restraint and social peace, with Dutch wages increasing less than in partner countries on average, and the Netherlands losing proportionately fewer days to strikes than any other European country. This set in motion a “virtuous circle” of good international competitiveness, high profitability, strong investment and rapid job creation, with feedback effects on household confidence, asset prices and private consumption. Tax relief has underpinned disposable income, making wage moderation more acceptable, and reduced non-wage labour costs (OECD 1998, 41).

<sup>763</sup> *NRC Handelsblad*, 26 February 1991.

<sup>764</sup> The Dutchmen Visser and Hemerijck (1997: 41) were the first to draw attention to the Netherlands as proof that “success can be achieved without a sharp rise in earnings inequality”.

<sup>765</sup> For an explanation of the European Court of Justice’s role vis a vis traditions of democratisation, I refer to chapter 11.

<sup>766</sup> The main goal of the first Christian-Democratic and Liberal government coalition of 1977 was to bring down the budget deficit. Thus, budgetary concerns increasingly substituted for the old concern of full employment (Delsen 2000: 22-26).

<sup>767</sup> The CPB calculated the effect in terms of employment if wages would not be moderated as well as if no ‘decoupling’ had taking place of public sector wages, related minimum wage and benefit levels to private sector wages.

<sup>768</sup> As noted by Hendriks (2005: 74), from time to time the impartiality of the CPB has been questioned in the Dutch media, however (*NRC Handelsblad*, February 23, 2002) and the foundation of research institutes to ‘counter balance’ the CPB has also been suggested (*Financiële Dagblad*, October 2, 2003).

<sup>769</sup> The point of no return in the creation of a Wassenaar mythology occurred in the mid-1990s when the Dutch employment performance was discovered by foreign media such as *Le Monde*, *Wirtschaftswoche* and *Business*

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Week that started to talk about a 'miracle' and a model case; from then onwards, the unions moved beyond acquiescence to actively help disseminate the myth (cf. FNV, 1999: 5).

<sup>770</sup> For instance, the Netherlands has always remained a reluctant immigration country, certainly since the period of depillarisation, (Amersfoort and Surie, 1987), but even before that since the percentage of immigrants in the Netherlands in the early 1960s was not higher than before the 1930s. Indeed, since at least the end of the eighteenth century, the end of the Dutch Republic, the Netherlands has ceased to be an openheartedly immigrant country, and at times witnessed strong emigration rather than immigration waves. In addition, up to the late 1970s the presence of immigrants in the Netherlands was seen as temporary (Entzinger, 2004: 289).

<sup>771</sup> Then again, the proportion of foreign-born in most European countries is not very different from the eve of World War I, and is much lower than at many points in the nineteenth century (Parsons and Smeeding, 2006: 5; Zolberg and Long, 1999).

<sup>772</sup> In effect, social-democrats were stuck in the middle between contrary historical tendencies. On the one hand, social-democrats never disavowed the romantic hope for the emergence of an international community of working people. This kept them from speaking out against foreign workers' entry in the country. On the other hand, the prevailing social-democratic attitude has generally been that significant immigration altogether is a bad thing, because it hides the underlying reasons of unemployment in the host country, and relieves governments of emigration countries from pressures to emanating from discontent voices in popular opinion.

<sup>773</sup> The Euro-Arab Dialogue (EAD) was institutionalised between twenty-one Arab states and the ten countries of the EC. The EAD met several times a year to discuss trade issues alongside the theme of "cultural cooperation" (Benchenane, 1983). Thus, a rare European Community directive concerning migrant populations in 1976 allowed for mother-tongue classes to be sponsored by "sending" countries, taught foreigners for third-country nationals in the EC... This was not a multicultural program; the intention was to facilitate the eventual re-insertion at home (Laurence, 2006: 265).

<sup>774</sup> Anti-immigration parties such as the Front National emerged by the late 1970s and 1980s in response to the increasingly visible impact of immigrants in big cities.

<sup>775</sup> There were several confrontational events involving Islam in the international arena that year... the post-communist void in central Asia (after the withdrawal of soviet troops from Afghanistan) would soon reveal to Europe the extent of Saudi (and later Turkish) institutional and financial deployment and proselytising outside of the Arab world. These events reverberated within Muslim communities across the continent (Laurence, 2006: 266).

<sup>776</sup> The Dutch government took a decisive turn in housing policy in 1990. Before 1990, housing policy had focused on the social rental part, with its combination of rent control and subsidised construction programs. The emergence to prominence of the liberal tradition during the 1980s made the government uneasy about its old responsibility for realising the targets for housing construction set by the parliament – as well as its pivotal role in bargaining procedures with the different housing market parties involved. After a parliamentary inquire, housing policy was adapted: the construction and management of social rental housing were delegated to the non-profit organisations owning this part of the housing stock, most of the subsidies for construction were withdrawn and real rents were increased to a higher level, more conform to market clearing levels. Clearly, higher rents have contributed to increasing demand for owner-occupied housing. In conjunction with the growth in real income and the gradual decline of interest rates, higher rent levels have driven house prices up to levels unknown in the surrounding countries – Belgium and Germany.

<sup>777</sup> During the period 2001-2003, coinciding with a period of new polarisation in politics and civil society, the Netherlands was in recession, and its economic performance worse than in 1982. The Dutch economy lagged far behind that of the euro area, with Dutch growth rate in 2003 being 1.1 percentage points lower; Portugal being the only euro area country to record lower growth... Since 1999, Dutch exports of goods and services have expanded at a much slower rate than world trade... Dutch exporters are losing market share because they have become less competitive owing to the sharp rise in unit labour costs, stemming from the large wage increases, coupled with the slow growth in labour productivity... The very market turnaround in private consumption growth, one of the pillars of economic growth during the boom period, was the main contributor to the economic downturn in 2003 (DNB, Annual Report 2003: 71-73).

<sup>778</sup> At the 2002 and 2003 general elections turnout was respectively 79% and 80%

<sup>779</sup> From a 49% stake in 1989, the Dutch government gradually relinquished all control, to retain a mere 1% share in the new entity ING.

<sup>780</sup> In addition, the NV (public limited joint stock) company has in the mean time become the customary legal form for the savings banks (Van Leeuwen, 1996: 260).

<sup>781</sup> In 1989, the NMB merged with the largely privatised Postbank – the former State Postal Savings Bank. In 1990, NMB-Postbank merged with Nationale Nederlanden, the largest insurer in the Netherlands in 1990, forming the Internationale Nederlanden Group (ING).

<sup>782</sup> FORTIS was created in 1990, as a merger between the VSB-bank - a conglomerate of Dutch savings banks, the Amev insurance group and Belgium's AG insurance group.

<sup>783</sup> Based on an internal Rabobank, 5 April 1976. *Nota ontwikkeling buitenlandbedrijf CB*.

<sup>784</sup> Rabobank's market leadership is especially pronounced in the small enterprises, with about 2 to 9 employees (TNS NIPO, 2003).

<sup>785</sup> A 1990 report commissioned by the Rabobank's department of Communication and Public Relations read as follows on the "corporate image" of the Rabobank and its competitors in the Dutch retail market. ("Onderzoek naar het Corporate Image van de Rabobank", Marketing and PR, July 1990). It concluded that Dutch "banks do not yet have a distinctive corporate image, although the Rabobank and the Postbank appear to have some differentiating characteristics. For the Rabobank those are the aspects 'friendly', 'personal' and 'agrarian' and for the Postbank 'cheap', 'easy', 'homebank', 'good accessibility' and 'favourable opening hours', but also 'impersonal', 'stiff' and 'slow'. Noteworthy also was that the customers of the Rabobank were "significantly" more positive than the customers of the ABN.

A 2000 report commissioned by the same department drew more refined conclusions ("Rapport : Strategisch Merkonderzoek financiële instellingen", Rabobank Group, April 2000). The main conclusion of the report was that with the economic boom of the last years consumers of financial services have "more money to spend", have become "more knowledgeable", have adopted a "more hedonistic lifestyle" and "partly out of necessity" take charge of their financial affairs. With regards to market position, the Rabobank comparatively attracted most customers in the following spheres : the "Family Inc." and consumers looking for "safety" in uncertain times. The ABN AMRO bank, on the other hand, attracted more "financially ambitious consumers". The Postbank, finally, is positioned as the bank of "financial outsiders", i.e. those looking for an easy, cheap and minimal solution to financial affairs. While the Postbank was often typified as an "anti-bank" because of the lack of bureaucracy and bombastic outlets, and the ABN AMRO bank's style was perceived as "business-wise" and Commercial, the Rabobank's services were depicted as the "familiar" and "human", but also "average" solution to financial affairs.

<sup>786</sup> Report commissioned by the Rabobank's Corporate Communication department ("Rapport : Strategisch Merkonderzoek financiële instellingen", Rabobank Group, April 2000).

<sup>787</sup> ABN Bank doubled its number of branches from 360 in 1965 to almost 720 twenty years later; AMRO Bank cast its net even wider, to 873 branches. With economic growth boosting private incomes, the banks succeeded in attracting a fast rising amount of household savings by offering interest-bearing checking accounts, with an extraordinary rapid growth as a result. ABN's assets rose more than fivefold to almost 35 billion guilders in 1974; during the same period, AMRO realised an increase of more than 4.5 times to nearly 34 billion.

<sup>788</sup> Cf. Deckers, 2001.

<sup>789</sup> In 1975, ABN and AMRO both acquired a major private banking firm, in order to strengthen their core businesses of asset management and investment banking. ABN bought Mees & Hope, AMRO acquired Pierson, Heldring & Pierson.

<sup>790</sup> Further proof to this gradual upward integration, in 1994, management decided that the subsidiary Schretlen & Co should be transformed in a private bank for very wealthy customers. Also, to get a sizeable piece of the pie of the growing investment funds market, the Rabobank in 1997 acquired 50 percent of the shares of the investment consortium Robeco Group. Finally, in 1999 the Rabobank established the International Private Banking & Trust, a subsidiary in charge of managing the property of wealthy owners outside of the Netherlands.

<sup>791</sup> The assumption was that the dismantlement of tariff barriers had not been enough; nontariff barriers and market fragmentation within the European Community had become major impediments to economic growth. Thus, in the first half of the 1980s new initiatives were proposed to reactivate the process of European integration. The most far-reaching of these proposals was the draft treaty establishing a European Union that the European Parliament adopted in early 1984.

<sup>792</sup> The Banque de la Société Générale de Belgique had forged a collaborative agreement with the Amsterdamsche Bank and the German Deutsche Bank, in the so-called "Bachelors Club" – alluding to the informal nature of the association, whereby each bank retained managerial autonomy. In 1963 this group was joined by the Midland Bank and was renamed the European Advisory Committee. In 1970 the group was incorporated in Belgium and operated under the name of European Banks International Company (EBIC), subsequently adding the French bank Société Générale, the Austrian Creditanstalt Bankverein, and the Italian Banca Commerciale Italiana to the fold. The committee also sought transatlantic connections, founding the European-American Banking Corporation in New York in 1968.

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<sup>793</sup> In doing this, costs of opening own networks in other European countries were avoided or at least substantially lessened.

<sup>794</sup> The mutual recognition principle was geared towards professional communities from the onset; it had initially been used in the Treaty of Rome with regard to professional qualifications only (EEC, 1987).

<sup>795</sup> The years 1966 to 1969 saw a re-opening of the international financial markets for the first time since 1929.

<sup>796</sup> EBIC (European Banks International Company), the most extensive form of consortium banking, was built up in the late 1960s and early 1970s by AMRO Bank, Banca Commerciale Italiana, Creditanstalt, Deutsche Bank, Midland, Société Générale, and Société Générale de Banque, with the ultimate goal of establishing a pan-European global bank. It had six separate banking operations including London (EBC), New York (European American), European Asian and European Arab. Yassukovich who was managing director of EBC, remembers setting it up in London in 1974 amid strikes and power cuts, often working by the light of a paraffin lamp. He acknowledges that consortium banks "had their moment. They allowed member banks to experiment and were a way of sharing risk. But it was always clear to me that they didn't have a long-term future."

<sup>797</sup> "The European banking networks, such as the EBIC-group, the ABECOR-Group and the Inter Alpha Group, however, did not work out as expected. First, they were undermined by the international expansion of the partners under their own names. Secondly, management was complicated and as a result did not function smoothly. Perhaps management hesitated to place their best personnel in the network. The joint ventures, more specifically, tended to behave too autonomously and the benefits for the partners were often unclear. Lending to developing countries, one of the objectives of the joint banks, caused heavy losses during the international debt crisis in the early 1980s, making the benefits recede even further. Therefore, European banks, including the Dutch banks (apart from Rabobank), decided to give up on the Banking Groups and instead gather strength through mergers in order to shape an international presence of own" (Sluyterman, 2004: ).

<sup>798</sup> The First EEC Directive on Company Law of 1968 in turn led to a thorough revision of Dutch Company Law in 1970 and 1971 (Chester and Vogelaaar, 1973: 1-3).

<sup>799</sup> EBIC disbanded in 1984 because the member banks had evolved independently and the group had lost its meaning.

<sup>800</sup> Restrictions on banking-insurance alliances were also lifted in accordance with EU practice. This led to the formation of conglomerate groups holding substantial share stakes in large numbers of companies.

<sup>801</sup> Both reasons contributed to the failed merger with German cooperative bank Deutsche Genossengesellschaft as late as 1999.

<sup>802</sup> The Dutch Bank had long struggled with the concept of a money-creating institution in the Netherlands, given the movement towards despecialisation and the creation of universal banks - hybrid organisations engaged in money creation, savings activities as well as capital market transactions. In parallel with the first European Banking Directive, this prompted the Nederlandsche Bank to abandon its earlier practice of breaking down the agricultural credit institutions' balance sheet into money-creating operations and savings banks activities. In 1986 the State Postal and General Savings Banks were also integrated into the one category of money-creating institutions (Van Straaten, 1989: 175, 352).

<sup>803</sup> A Directorate-General for Regional Policy was first created in 1968, with its promoter Jean Rey stating: "Regional Policy in the Community should be as the heart is in the human body...and should aim to reanimate human life in the regions which have been denied it". In 1973, the Thompson Report stated: "although the objective of continuous expansion set in the Treaty has been achieved, its balanced and harmonious nature has not been achieved". Subsequently, in 1975, the European Reconstruction Development Fund was set up for a three-year test period with a budget of €1,300 million. The objective was to correct regional imbalances due to the predominance of agriculture, industrial change, and structural unemployment. Finally, cohesion became a political priority in 1986 with the formal adoption of a Cohesion Policy in the Single European Act (1986), and the confirmation of the priority of a Cohesion Fund in the Treaty on European Union (1992).

<sup>804</sup> A strange paradox surfaced in the relation between the Co-operative Banks and Dutch agriculture. On the one hand, the importance of agriculture in the Dutch economy decreased sharply. Indeed, starting in the 1950's, the Netherlands, from being a nation heavily dependent on agriculture, was gradually turning into an industrial and service economy. The share of agribusiness in the national income fell from 21 percent in 1953 to 12 percent in 1972 (Van Zanden and Griffiths, 1989 : 224). On the other hand, the soaring scale, rationalisation and mechanisation of farming operations increased the demand for large amounts of credits. Thus, while the significance of agriculture declined, the Co-operative Banks became more central to agricultural operations. Indeed, after WWII the share of Co-operative Banks in the financial business of farmers rose to 90 percent, a figure which remained the same in the following three decades (Graafsma, 2002: 73).

<sup>805</sup> With the new Act of Supervision that came into force in January 1979, the Dutch Bank belatedly became the supervisor of mortgage banks in the interest of their solvency and liquidity, a sector which thus far had been, like the savings banks and the agricultural credit banks, characterised by self-regulation. Credit institutions were granted a period of three years in which to adapt their organisation and operations to the new legislation.

<sup>806</sup> Between 1980 and 1981, real house prices fell on average by 11 percent. The proportion of owner-occupier dwellings under construction fell from 64 percent in 1979 to 40 percent in 1981. In 1981 and 1982, around 100 building contractors went bankrupt each month, resulting in the loss of between 40,000 and 50,000 jobs.

<sup>807</sup> Initially, the mortgage banks had profited from their exemption from all kinds of post-WWII legislation on financial services. So, mortgage banks were allowed to issue bonds on tap, rather than being subject to the so-called “calendrier”, a waiting list for bond issues administered by the Dutch Bank with a view to preventing disruptions of the bond market. Able to circumvent the calendrier legislation, which was in force from 1946 until the deregulation of the Dutch capital market in 1986, mortgage banks could use mortgage bonds to immediately adjust their credit interest rates to changes in market conditions, and attune the volume of borrowing to the volume of lending. In addition, in contrast to other bonds, mortgage bonds could be sold directly by the mortgage bank issuers, either through the own branches or through other Commercial banks. Against this, the only thing mortgage banks were not allowed to do was to attract funds for periods shorter than two years. Because of these advantages, mortgage banks kept funding themselves exclusively by issuing mortgage bonds – complemented by some private placements.

<sup>808</sup> The Rabohypotheekbank came into being in 1975 after the merger of the independent mortgage banks of the former Eindhoven and Liberal-Protestant Centrals.

<sup>809</sup> More recently, ING, ABN AMRO and Rabobank decided to cooperate in the implementation of a common Internet platform for payment services.

<sup>810</sup> The predominance of banks of the universal type became even more marked during the course of the 1980s. In many cases, specialised institutions - such as mortgage banks or credit institutions engaged in securitised lending, i.e. institutions whose core business is mediation in securities trading at the stock exchange - were taken over by universal banks. In line with developments in other countries in Europe, the Dutch banks, too, endeavoured in the 1980s to extend their traditional domestic operations to include high-yielding commission fee business, such as leasing, factoring, real estate transactions, the sale of insurance products and, above all, merchant and investment banking (Klein, 1995: 63-64).

<sup>811</sup> In the 1980s, fears of untenable collective provisions in face of an ageing population led the government to promote private insurance and pension provisions by granting those investments a fiscally preferential treatment. Interest free savings, on the other hand, did not enjoy an equivalent treatment. The increase of contractual savings to the detriment of “free savings” went on unabated; by 1990 family saving portfolios consisted almost entirely of contractual savings (Dankers et al., 2001: 341-343).

<sup>812</sup> Source: PVK Staten 2005.

<sup>813</sup> After the 1979 housing market crisis, Rabobank arguably showed a more “social face”; it was more lenient towards customers with liquidity problems, regularly according them a temporary suspension of debt repayment (Sluyter et al., 1998: 236).

<sup>814</sup> Ultimately, this led to the marginalisation of savings banks. Another weakness of the savings banks was their branch network. While theoretically the most extensive – comprising 2400 branches all around the country, compared to 2200 each for the State Postal and the Co-operative Banks, and 1500 for the Commercial banks – the savings banks’ branch network had very limited capabilities in terms of service provisions to the general public.

<sup>815</sup> By the end of 2005, Eureka was the Dutch insurance market leader with a share of 19 %.

<sup>816</sup> In doing this, ABN was only a few years ahead of changes in popular opinion. During the 1970s Commercial banks’ international endeavours had to endure a lot of domestic criticism. However, a more general change of the political tide followed after the 1977 elections, which allowed the argument of uncontrollable international market forces beyond national macro-economic control to gain strength.

<sup>817</sup> As we shall see in chapter 11, the liberal tradition is a misnomer of “universality” for entirely different contextual and historical contingencies in England and the US.

<sup>818</sup> By virtue of its colonial past, ABN for many decades had built up a branch network in South East Asia and in the Middle East (Sijbrands, 1994). ABN’s interest in Latin America had more recent origins; the 1967 acquisition of Hollandsche Bank-Unie, a bank with an extensive branch network in Latin America. Confronted with continued political turmoil in Latin America, and a wave of nationalisations in Saudi Arabia, Surinam, and Iran, ABN in the mid-1970s redefined its international strategy, in favour of a greater focus on stable regions such as the US.

<sup>819</sup> Since their formation in 1964 both ABN Bank and AMRO Bank had gradually climbed the list of leading banks of the world – measured in total assets. By 1980 ABN Bank ranked in the top twenty, with AMRO Bank

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somewhat lower. Later, the relative size of both banks declined in line with trends in the Dutch economy. By 1989 ABN Bank had fallen to 48th place and AMRO Bank to 46th. With the merger, however, the combined balances of the new ABN AMRO Bank came to 400 billion guilders, raising the bank's world ranking to sixteenth. This was vital for the bank's international public profile.

<sup>820</sup> Before LaSalle, ABN had acquired participations in American companies all over the US. Similarly, during the 1970s, ABN built up a branch network in for instance the East Coast. It is only with LaSalle that ABN started concentrating its US operations in the Midwest.

<sup>821</sup> The Dutch ABN directors experienced their share of problems in trying to find a middle ground between Dutch and US company traditions. Indeed, they found out the hard way that the management of the acquired company LaSalle found it impossible to cope with Dutch informal traditions. The LaSalle managers complained that "there did not exist a clear philosophy for the American activities", and that this was the reason why the company's performance was below par. They wanted much clearer formal procedures – involving a clear division of labour – and insisted that a high level of autonomy was absolutely necessary to ensure the viability of their endeavours. In response, ABN first formulated clear procedures and installed "short, direct lines" between LaSalle and the holding ABN Company Inc, second gave in to pressures for a "strong leader" in LaSalle, and finally accorded the US management a high level of autonomy from the Dutch Managing Board (Westerhuis, 2004). Thus, just like Unilever in the post-WWII period (Jones, 2004), it appeared ABN Bank found no other solution than to give in more than it wished to the "republican" strength of the US company traditions, even if this precluded organic integration in the own group's traditions.

<sup>822</sup> The US contributed over 25% of pre-tax profits by the year 2000 compared to 11% in 1990 (Slager, 2004).

<sup>823</sup> One of the constituent entities of ING, NMB, had transformed itself from a domestically oriented bank into a bank with high profile international operations in the 1980s - before merging with the Postbank in 1989. NMB engaged in a two-tier strategy, engaging in high-risk and high growth activities outside the Netherlands, and gaining market share inside the Netherlands. NMB built a corporate banking network in Latin America in the 1980s and experienced success by the end of the 1980s with the emerging market debt business which it had first set up in New York in 1978. Domestically, NMB was less successful. The loan portfolio was expanded to quickly, and the merchant bank set up in 1986 was closed in 1991 (Slager, 2004).

<sup>824</sup> ABN had 136 foreign offices and 5,200 staff members abroad in 1972 (Sluyterman, 2004).

<sup>825</sup> This allowed the bank to engage in international capital market operations – most notably, take a stake in the Eurodollar markets.

<sup>826</sup> In 1980, a first discussion was held concerning the planning of publicity in the international market ("Bespreking inzake de publiciteitsplanning internationale dienstverlening", Rabobank Nederland, July 25, 1980). The main outcome of the discussion was that the domestic state of affairs, namely the position of the affiliated local banks, would always remain the starting point. The primary aim being to remain a strong "domestic bank", internationalisation would serve to consolidate this position. An important step forward in gaining visibility at the international level, was the establishment of an office in New York in 1981 and the application for a "credit solvability" evaluation at US rating institutions. In the same year, the Rabobank was attributed a maximum Triple-A rating by these institutions (Visser et al., 2003: 111). Apart from allowing the Rabobank to raise funds cheaply and put out funds dearly on international markets, this rating also helped the Co-operative bank to appear more modern and position itself favourable vis a vis upstream populations, be they in politics or in the market. Otherwise, the internationalisation policy of the Rabobank was not particularly successful.

<sup>827</sup> By 1988 Rabobank had reorganised the branch network of this former partner of DG bank to serve Dutch customers and focus on agricultural and food related finance activities.

<sup>828</sup> With the foundation of Rabobank International, Rabobank upgraded its London branch 1997 into a full-blown investment banking department (1997), with the aim of profiting from booming securities markets (De Boer and Graafsma, 2002).

<sup>829</sup> Two announced large scale mergers fell through. And Rabobank's investment banking by 1999 were proclaimed unsuccessful. They were considerably scaled down.

<sup>830</sup> A 2001 report of Rabobank's Economic Research department concluded: "Not all parties have a clear European strategy. While the Rabobank Group and SNS Reaal Group do focus mainly on the Dutch retail market, ABN AMRO, ING Group and FORTIS do have clear European (international) ambitions". The international strategy of these organisations mainly consists of exporting successful domestic activities – products or distribution formula. For instance, the ING-group's ING Direct initiative is based on the Postbank-formula. The same applies to FORTIS' concept of bankinsurance. Generally speaking, what is noteworthy is that the "universal banking" or "global banking" strategy – all products, to everyone, everywhere – of the last decades is being abandoned. For instance, ABN AMRO retracted her retail activities from a substantial amount of countries. In deploying an international strategy, apart from autonomous growth and takeovers, the track of implementing new

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distribution channels such as Internet is being followed, for instance by ING with her Direct bank in Canada and the Rabobank with her new internetbank in Belgium”.

<sup>831</sup> Global Finance, 2007.

<sup>832</sup> As first adopted in the Basel I Accord, the Tier 1 capital ratio is the ratio of a bank's core equity capital to its total risk-weighted assets - weighted for credit risk according to a formula determined by the Central Bank in charge.

<sup>833</sup> The Banker, July 2007.

<sup>834</sup> Also, by the late 1980s, the post-WWII growth-oriented settlement had become entirely discredited (Gill and Law, 1989), and an international ideology of “neo-liberal austerity” had gained the upper hand. More specifically, financial globalisation increased the incentives for governments to pursue national macroeconomic strategies which seek low and stable rates of inflation, through fiscal discipline and a tight monetary policy, since these appeal to global financial markets (Held, McGrew, et al., 1999: 230).

<sup>835</sup> A merger and takeover movement waved over the Netherlands. As a result, while in 1965 more than half of industrial companies' liabilities still came out of own equity capital, this percentage had decreased to 38 percent in 1973. Almost 80 percent of the increase of the balance now was on account of foreign capital, mostly short-term. Dutch bankers played a key role in these rationalisation projects. Unlike the industrial sector, however, banking did not suffer from the fact that the Dutch economy was turning from an « island of cheapness » into a focal point of the Western Europe services market. Much to the contrary, in spite of burgeoning levels of inflation, tense capital markets and rising interest rates, the banking sector thrived during these years of transnationalisation, especially after 1974. In these years, Commercial banks took advantage of their strong volume growth in a protected domestic market to fare comparatively better than their industrial counterparts.

<sup>836</sup> Thus, a 1975 study revealed that 303 interlocks connected a group of 22 financial institutions with industrial corporations (Helmets et al., 1975).

<sup>837</sup> The “Wet Toezicht Kredietwezen”

<sup>838</sup> Economic transnationalisation such as the one attempted by Dutch commercial banks was an escape from the attempts by a radicalised “1968 generation” of cadre in Western states to democratise economic production within the state framework (van der Pijl, 2001).

<sup>839</sup> ABN, AMRO and Mees & Hoppe together had 46 links with 64 industrial corporations.

<sup>840</sup> This network was formed by three Dutch (Royal Dutch Shell, AKZO and AMRO Bank) and five German firms (Deutsche Bank, Mannesmann, Volkswagen, Bayer, BASF). Royal Dutch/Shell, and to a lesser extent AMRO Bank served as bridges between continental and Anglo-North American firms.

<sup>841</sup> In addition, Dutch commercial banks' cost structure was not very competitive: despite the mass of cheap funds flowing in from savings accounts, the operating ratio – the relationship between income and costs – of the Commercial banks declined from 2.0 in the early 1950s to some 1.3 in the early 1970s. As noted by Slager (2004): “Commercial banks' retail strategy was clearly running into the sand of spiralling costs (Figure 5). Between 1965 and 1975, costs rose from less than 60% to over 80% of revenues. The banks did not immediately have to face the consequences of this selfinflicted inefficiency. The banking cartel limited price competition, and during the 1970s revenues soared, fuelled by firms taking loans to combat balance sheet erosion from rising inflation, by rapidly expanding consumer credit, and by a housing boom. Consequently, the deep recession following the second oil crisis hit the Commercial banks very hard indeed, notably AMRO Bank, which suffered the indignity of seeing its Standard & Poor rating reduced following the disclosure of heavy losses in 1984”.

<sup>842</sup> Het Financieele Dagblad, 29 March 1990.

<sup>843</sup> Despite the renewal of domestic tranquility and cooperation, Dutch Commercial banks, for their part, had fallen back to a second-tier status at the international level by the 1990s. Compared to the mid-1970s, by 1996 the number of interlocks between finance and industry had gone down with almost 40 percent (Heemsker et al., 2003).

<sup>844</sup> Arguably, ABN AMRO still had a more central role in the domestic corporate network than other financials like ING, FORTIS and even the Dutch Central Bank (DNB) (Heemskerk, 2001: 54).

<sup>845</sup> The Dutch “old-boys-school-network” has been facilitated by small physical and social distances. Formation of such a network is also facilitated by virtue of a similar educational background, and frequent contacts in various foundations, councils, boards and committees (Van Waarden 2001: 42-44; Visser and Hemerijck 1997: 90).

<sup>846</sup> So, when asked in 2003 whether his taking up of a position in the Supervisory Board of ABN AMRO after having been Management Director of the same bank did not represent a conflict of interest and a typical case of oligarchical ruling, Jan Kalf answered : “The system mostly works fine in most cases... Giving more authority to shareholders is not at all always a good idea... It is very questionable whether shareholders would be able to

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solve the problems. They only convene twice a year...Calling for a shareholder assembly takes six weeks. And even then not everyone might be present. Then we would have to issue a second call." Thus, his conclusion was that "thousands of shareholders that come from all over the world" cannot fulfil supervisory tasks as adequately as a Supervisory Board (Interview with Jan Kalff in Risk Magazine, <http://www.veraf.nl/nieuwsbrief1/PublicatieRiskM.htm>) Jan Kalff was a former Chairman of the Managing Board of ABN AMRO. He stepped down as a member of the Supervisory Board of ABN AMRO on October 30, 2003.

<sup>847</sup> together with the Dutch Savings Union, the in 1986 established Postbank and all foreign bank branches (Sluiterman et al, 1998 : 212; [www.nvb.nl](http://www.nvb.nl)) .

<sup>848</sup> Zijlstra, J. 8 June 1970 . *Rede voor de Bank voor Internationale Betalingen*.

<sup>849</sup> According to a former strategy director of the Rabobank, "in the period 1968-1980, the Rabobank from a 'societal-political' organisation turned into a purely banking enterprise (Interview with a former strategy director of the Rabobank on January 27th, 2003). In fact, the Rabobank informally had taken a turn away from agricultural politics in the 1970s already. After the 1974 agricultural crisis, it became clear that the leaders of the agricultural "green front" would not be able to rekindle corporatist arrangements. For one, in spite of its social-democratic credentials, the Dutch government did not follow its Belgian, German, Danish and French counterparts; the latter decided to initiate additional support policies. In response, Dutch farmers on July 29th 1974 showed unprecedented militancy against the Green Front's leaders. On August the 10th, the leader of the Catholic farmer association KNBTB, Mertens, expressed his disapproval with this militancy : "We can achieve much more in negotiations with rational thinking partners, with well founded arguments, than with spontaneous and inconsiderate actions on roads and crossings" (Boer en Tuinder, September 1st 1974). Mertens' further statements about the necessity to get 30 percent of farmers to stop farming, though not being revolutionary in light of the existing policy to contain production growth by increasing labour-productivity and diminishing the number of agricultural labourers (Nooij, 1976), angered the increasingly self-aware farmer population . Faced with the lack of authoritative leadership in the agricultural movement, the directors of co-operative banks were compelled to demonstrate more self-reliant leadership.

<sup>850</sup> In contrast with the decades before, the farming community during the 1980s was only marginally represented in Parliament. For the co-operative banks, this not necessarily was a bad thing. For one, agricultural decision-making had shifted largely to Brussels in the mean time (Everts, 1985: 311). Second, an overbearing influence of the Agricultural Board and Co-operative leaders on the Dutch parliament surely would have been badly received in popular opinion, given the greatly declined importance of agriculture for matters of national self-sufficiency. Third, the clientele of co-operative banks had grown beyond the narrow circles of agricultural life anyway.

## 11 ENGLISH FINANCIAL INSTITUTIONS (1969–2007)

### 11.1 Changing geopolitical opportunity structure (phase 1)

#### *a) The question of the EEC*

Would the final demise of the British Empire result in a push for an English industrial democracy or would Britain reinvent itself as a world-state loyal to the policy of unilateral liberalism? Not surprisingly, domestic demand would prove less important in answering this question than the ease with which British elites could adapt to either US or European Economic Community (EEC) geopolitical strategies. While not entirely surprising, this is a point worth making in the context of democratisation dynamics, and the widespread belief that domestic policy issues almost always trump geopolitical issues in determining electoral behaviour. On the 1st of January 1973, the UK officially joined the EEC. Initially sceptical about membership, by 1961 several geopolitical and domestic realities had convinced the Conservative government that joining the EEC would help the UK regain “a first-class country” status. Geopolitically, the UK’s strategy was to be at the centre of three circles of influence: the Commonwealth, the US and Europe. Before it became clear that the balance of British trade was significantly shifting from the Commonwealth towards the EEC, UK policy had been to hold on to imperial preference (Moravcsik, 1999).<sup>851</sup>

Domestically, several coalitions of elites encouraged entry into the EEC, for different reasons. Anxious not to lose out on expansion opportunities in European markets,<sup>852</sup> big businesses such as banks and multinationals by and large supported membership. Expansion opportunities did not only come in economic terms for big business; they also concerned the desire to escape the political and civic constraints of the domestic democratic system. Large banks and multinationals quickly realised that corporatist pressures and structures could not easily be transplanted to a supranational EEC level. Already in the process of forming their own government relations divisions – independent of existing industry and business associations – these big businesses saw the institutional insulation of European economic policy as one way out of the conundrum of domestic tripartism (Grant, 2007; Streeck, 2006: 23–24, 39).

A second domestic coalition, a cross-section of the Bank of England-Treasury-City nexus of elites, had its own, more indirect reasons for supporting EEC membership. It associated first-class-country status with a strong sterling, capable of functioning as a credible reserve currency for all nations engaged in commerce. One way to prop up the value of the sterling was entry in the EEC, especially since the UK was predicted to require quickly arranged and substantial external credits in the near future from the EEC Six. Finally, some industrial leaders – including the 1960 leadership of the Federation of British Industries<sup>853</sup>, Labour and Liberal politicians argued that the UK government for too long had pursued imperial grandeur at the expense of growth, and that it was now time to strengthen and reconstruct the domestic industrial base (e.g. Blank, 1978; Shonfield, 1958, 1965).<sup>854</sup> These calls gained strength as a process of slow divergence of regional unemployment – the infamous North-South divide – gained momentum. By the late 1970s, the unemployment-ridden North, which for half a century had consisted only of the old industrial periphery – Wales, Scotland and the utmost North of England, had been extended to the manufacturing heartland – including the North West, the West Midlands

and Yorkshire-Humberside (Martin, 1988: 397).<sup>855</sup> All this occurred on a background of failed regional experiments by the National Economic Development Councils and the Industrial Reorganisation Corporation; as well as more a general sense of national decline.<sup>856</sup>

The trade unions by and large were against membership in the EEC. Unions had long argued that entering the EEC would demand serious structural adaptation given the industrial and export success of some of the European late-developers, in particular Germany.<sup>857</sup> Fear of a lasting trade deficit with countries such as Germany induced Conservatives to not only adapt their monetary policy to EEC requirements, but also – timidly – copy some of the more corporatist practices of EEC members such as wage restraint in return for full employment (Crouch and Dore, 1990: 12). With Conservative “wets” such as Macmillan<sup>858</sup> and Heath in the ascendancy, but Conservative “dries” adamant to protect the liberties of the propertied from welfare state encroachment, any attempt at continental-style corporatism was bound to be half-hearted, however. Especially since, at the other side of the spectrum, trade unions and the Federation of British Industries (FBI) were at a loss about what to do with their newfound access points to policy-making.<sup>859</sup> The expectation was that they and other pressure groups would become stronger given the necessary reforms. The opposite was true: attempts at reform only weakened the autonomy and sovereignty of these bodies (Cronin, 1988: 229-231).<sup>860</sup> This again became clear with the coming into government of Labour after the oil shock of 1973.

#### ***b) The fraught Union – Labour Party link***

Prior to taking office in 1974, the leaders of the Labour Party had worked to put the union-party link back together after the breakdown of the 1965 National Plan<sup>861</sup> and the failed attempts of the Wilson government (1964-70) to reform the unions.<sup>862</sup> Goodwill for Labour’s friendly attempts initially had been created by the attempts of the Heath Conservative government (1970-74) to pass trade union legislation, which spectacularly back-fired. Union leaders utterly rejected this infringement of their ancient liberties, ushering in the first major miners’ strike of the 1970s. After, there was only one party to turn to: Labour. The Labour government also felt emboldened because it felt it had received a mandate on party-union relations by the electorate. The Conservatives had fought and lost the 1974 election as a referendum on whether the government or the unions should run the country. Labour’s victory meant it was entitled to conclude a new “social contract” with the unions. The somewhat wishful assumption, on which this contract was premised, was that workers would voluntarily trade improved benefits and social services for lower wage demands (Cronin, 2006; Howell, 2005; Moran, 1971).<sup>863</sup> Inflation had been identified as the main cause of the “nation’s grave economic problems” and the plan was to ask for voluntary wage and price restraint in return for expanded social services and a degree of industrial democracy (cf. Krieger, 1987: 40-41; TUC, 1973). These hopes were quickly disappointed, as inflation continued to gather pace in response to the oil crisis of 1973–74.

#### ***c) Sterling crisis: happy accident?***

The sterling crisis in 1976 unexpectedly gave the Labour government a way out of its electoral pledges on public spending. When the Callaghan government swiftly applied for a loan from the International Monetary Fund (IMF) to stem the crisis, and opted for policies centred on price stability and private investment, it looked like it had buckled under the pressure of the IMF and City-Bank-Treasury nexus. Purportedly, this alliance’s vigorous attacks on the forces of “economic corporatism” were too much for a

government which finally caved in to demands to recompose social relations (Jessop, 1980: 81–82). Some argue that a “paradigmatic” shift in macro-economic policy followed, from Keynesianism to monetarism: inflation replaced unemployment as the pre-eminent concern of policy-makers, macro-economic efforts to reduce unemployment were rejected in favour of balanced budgets and monetary policy replaced fiscal policy as the principal macro-economic instrument (Hall, 1993: 284). The shift was neither as paradigmatic as Hall maintains<sup>864</sup>, nor was it forced upon the government by an all powerful City-Bank-Treasury alliance. Throughout the post-WWII period, a majority of UK elites – including the centrist core of Labour leaders – had demonstrated their unrelenting support for a strong international position of sterling.<sup>865</sup> Also, they had consistently favoured adaptation of interest rates in response to world changes rather than as a means to invest in domestic strengths (Blank, 1977; Shonfield, 1958).<sup>866</sup> Given elites’ immovable prioritisation of “world-state” considerations, their often unavowed assumption was that the source of the pound’s continuing weakness lay in the domestic economy. The final shift to monetarism thus removed a long-standing contradiction in their macro-economic assumptions, rather than signified a paradigmatic shift.

What did all this amount to in terms of the UK’s position within the EEC? From a continental European viewpoint, the US’ balance-of-payments deficit had proved a major wedge that undermined the cohesion of the Atlantic partnership. European governments found that their autonomy in conducting domestic economic policy was seriously curtailed by the transmission of inflationary pressures from the “undisciplined” US economy. Contrary to the US government which used its hegemonic status to conclude favourable bilateral agreements, European governments could not afford to run payments deficits or surpluses for prolonged periods without having to resort to a general macro-economic adjustment.<sup>867</sup> Things finally came to a head with the collapse of the Bretton Woods system in 1971<sup>868</sup> and the dollar crisis in 1978. How did the British monetarist fit in this picture? Some argue that the Labour government’s turn was not simply about “managing the British crisis”, but about the revival of Atlanticism at exactly the time when continental European Atlanticism was at a historical low. After long deliberations between the Bank of England, the Treasury and the secretary of the US Treasury about the need to stabilise the London-New York link of financial capitalism, Labour ministers explicitly accepted the role of “junior partners with the US in managing the international crisis, through policies to accelerate the free flow of capital” (Panitch 2000: 13).<sup>869</sup> In particular, the Labour government was prepared to accept an accelerated “globalisation” of the domestic policy regime – amounting to an accelerated “Americanisation” as the discourse of globalisation at that time emerged in response to greater U.S. involvement with the international economy (Hirsch and Levin, 1999; Hirsch and, 200).

With inflation levels showing no signs of abating, popular opinion warmed to the substitution of monetarism for post-war Keynesianism – although the first fifteen years of British monetarist policy (1976-1990) would result in higher average inflation levels than the “Keynesian era” (1934 to 1976). The tipping point in popular opinion was reached during the infamous “winter of discontent” of 1978-79 when a series of unofficial and official strikes helped bring down the Labour government. The general election of 1979 was fought around the question of national economic decline and widespread calls for a wind of change. Led by Thatcher<sup>870</sup>, who vowed to reverse the United Kingdom’s economic decline by following through monetarist policies and reduce the State’s reach, the Conservatives won the elections with a clear majority. Under the Thatcher government,

Labour's tentative changes would be fully consolidated. With Thatcher at the helm, experimental policies of private investment and price stability gained the evangelising fervour needed to turn the UK experiment into a global launching pad for the "Washington Consensus"<sup>871</sup> – a set of monetarist policies championed by the US government, the IMF and World Bank (Harmon, 1997). In one way at least, the 1976 sterling crisis, and subsequent "policy shifts" proved a happy accident for the economic growth of the UK, in particular London. Both in terms of outward and inward foreign investment, London from all the world's city-states benefited most from the US-initiated de-regulation of capital markets and the expansionist fiscal policy of the early Reagan era. In retrospect, acting as a launching pad for the US' new geopolitical strategy meant that the UK could benefit from a large chunk of that country's budget and trade deficits in the 1980s; all of which considerably fuelled the recovery of its economy (Gamble 1988: 98; Gifford, 2006: 469).

Under Thatcher the Atlanticist approach to economic management would decisively be prioritised over European plans for monetary co-operation; plans on which the British position was increasingly cautious, and even outright hostile (Jenkins 1991: 446). Of course one could argue that the European Community was just a bureaucratic chimera, a utopia that in practice was being superseded by a European movement of financial democratisation more akin to the UK. Indeed, with the establishment of the City as the main hub of Eurodollar transactions in the 1970s, and the introduction of Big Bang legislation in the 1980s, London was fast becoming the centre of a more Anglo-American type of European democratisation – which soon would extend to non-EC members from the Soviet Federation.

## **11.2 First strategic interactions (phase 2)**

### *i) Conservative Party*

Membership of the European Union has always been a contested theme in both the Conservative Party (Baker et al. 1993a, 1993b) and the Labour Party (Daniels, 1998). Still, up to the 1980s the Conservatives arguably acted more as the "Party of Europe". Relatively independent of trade unions – which have always equated EEC membership with economic liberalisation, and geared towards protecting national traditions and interests on the international scene, the Conservative Party led the way in presenting Europe as a possible substitute for the Commonwealth. After all, if it were not for unabated Conservative support, the Labour government would not have been able to override the "no" vote at its own Party Congress and clinch majority support for the "yes" campaign in the 1975 referendum on EEC membership. Clearly, a considerable part of the Conservatives has always been Euro sceptic, and increasingly so since the Thatcher era. Up to the 1980s, Conservative Euro scepticism had not really surfaced in the mainstream, as the debate on Europe was largely confined to within the parliamentary party. Arguably, the EEC issues that so exercised MPs and (shadow) ministers "were not issues that really registered with the party's grass roots" (Crowson, 2006: 45). That is, up to the arrival of Thatcher, with her increasingly outspoken geopolitical preference for a new Anglo-American alliance (Gamble, 2007). In a first stage, Thatcher supported EEC membership because it would help the UK consolidate its position as entry point in European markets for US and Japanese firms. This is how Thatcher's decision to sign up to the 1985 Single European Act – which aimed to create a unified economic area by the end of 1992 – should be interpreted. When Jacques Delors spelt out the emerging "social dimension" of

the EEC, Thatcher finally let loose her most radical anti-European instincts: “We have not successfully rolled back the frontiers of the state in Britain only to see them re-imposed at a European level, with a European super state exercising a new dominance from Brussels”. More and more Conservatives would join in, depicting the EEC as part of the problem rather than the solution for the UK, on two accounts: the “socialist” nature of the EEC and the “jealousy” of continental financial centres of “London’s primacy and will”. In conclusion, many Conservative MEPs agreed with the comment that “European and monetary union will remove all characteristics of sovereignty which characterise a proud and independent nation, and which still today give to the British one of the few binding characteristics of discipline that entitle us to call ourselves a great nation”.<sup>872</sup>

It is under Major’s government, that the decisive shift in the balance of power in the Conservative Party took place. His government’s move toward monetary union and the adoption of a European exchange rate mechanism backfired horribly.<sup>873</sup> The humiliation of Black Wednesday blew to shreds the Conservative reputation as the party best able to manage the economy. Furthermore, it opened up a gap behind Labour in the polls that has persisted to the present day. While some argue that Europe became the “achilles’ heel” of late twentieth-century Tory politics (Turner, 2001: 38), the turn to Euro scepticism did the party no harm among voters. This became clear with William Hague’s accession to the leadership in 1997, and the fact that only his outspoken Euro scepticism earned him majority support in popular opinion (Baker 2001). For instance, a survey organised before the 2001 election showed a preference for the Conservative position on Europe over Labour’s of 44% to 28% (Worcester and Mortimer, 2001: 29).

In geopolitical terms, Thatcherism has induced the emergence of two discourses in the Conservative Party, one “hyper global”, the other “intergovernmental”. According to hyperglobalists, governments have learnt that in an open world economy, they are nothing more than ciphers for financial market policies which they do not themselves determine (Gill, 1998). Intergovernmentalists, by contrast, are still wedded to national parliamentary democracy as the supreme base for ordered, legal and democratic government (Lynch, 1999). The US being the global cheerleader, and “federal Europe” the imagined enemy of national parliamentary supremacy, Thatcherism in effect has shifted the middle ground in the party to the “Anglosphere”, a globally leading region in which English-speaking nation-states – in particular the US and the UK – share traditions and special relationships. In recent years, commentators have made sense of Thatcher’s position through the narrative of the « Anglosphere » - a new narrative of Anglo-American hegemony (Gamble, 2007: 13). Although Thatcher did not use the word, and only recently has explicitly condoned its use, I shall use it to retrospectively make sense of her action – fully recognising that her strategy did not enjoy any retrospective benefits, but was the result of some sort of logical incrementalism.

Thatcher’s rejection of the EU, and her evangelical recombination of hyper-nationalism and hyper-globalism, has induced many Conservative Party to take refuge in regional Anglosphere values; denoting a belief in low taxation, low government spending, deregulation and privatisation, combined with a strong attachment to national sovereignty and the nation state as the guarantor of national identity and national independence.<sup>874</sup> In this view, the national policy-making constraints of globalisation are welcomed because they rule out the kind of social democratic measures which are viewed as incompatible with British national identity, forcing the government to set the people free whatever its ideological predilections (Baker et al., 2002: 409 et al.; Holmes 1996; Howell, 2000).

Again, the Conservative Party reinvented a form of Britishness; but because Thatcher saw the US as part of the solution – and the EU as part of the problem, Britishness now also included those features of “Americanisation” that were considered acceptable because they did not overtly go against the grain of notions of “Englishness”, “Welshness”, “Scottishness” and “Irishness”. In practice this meant that for instance the US tradition of “happy mediocrity” now was welcomed as a morally salutary influence, especially since it seemed to encapsulate a modern version of the home-grown tradition of secular Anglicanism.

The consolidation of assumptions of an “Anglosphere” naturally led to a substantial rewriting of history. By the mid-1980s, a new official discourse had emerged, the first part of which sounded very familiar. The UK’s comparative advantage is to export capital, invest it profitably in those markets with the highest return, and act as the financial entrepot of global markets (Gifford, 2006; Hirst and Thompson, 2000).<sup>875</sup> Furthermore, as the UK supposedly was not good at manufacturing productivity, and as trade unions were not to be trusted, the UK’s comparative advantage was to provide a flexible and relatively cheap labour force, with little countervailing trade union powers. In policy terms, all this translated in the financial service sector enjoying disproportionate attention from a Conservative Government desperate to reduce public expenditure (cf. Appendix F) and render membership of the Anglosphere incontestable. Foreign and domestic financial services organisations were co-opted as partners in the twin moves towards the privatisation of pension - and other social security – schemes, and, the diffusion of “shareholder capitalism” amongst as many people as possible (Morgan and Sturdy, 2000: 98-100).

The backlash of Thatcher’s disregard of the principle “a good Conservative is both a good Whig and a good Tory” finally erupted in 1989 with her introduction of the “Community Charge”. This tax was reinvented by opponents as the “Poll Tax” after the hated 13th century Poll Tax which in the 14th century was a major cause of the Peasants’ Revolt. Presented as yet another infringement by the State of the ancient principle of voluntarism – a Tory principle, protests against the Community Charge were so vehement that her opponents in the Conservative Party finally managed to plot a successful “coup” and remove Thatcher from the party leadership (Marwick, 1996: 398).

Nevertheless, with Thatcher England had made the comprehensive turn to Anglosphere assumptions. This meant that, for the first time in its history, the Conservative Party is left without a prominent defender of national protectionism in its ranks – apart from protection of the special Anglo-American relationship. The decline of the British Union undoubtedly gave further impetus to this development. Admittedly, by the 1990s the Party still proclaimed itself the core of the “Union”, but during the Thatcher years it had failed properly to restore its historic links (Baker et al. 2002: 403). Thatcher’s rule sped up the emergence of a strong Unionist faction in Northern Ireland, and caused a further loss of support in Scotland and Wales. For instance, while the Conservative party had held 50 per cent of the Scottish vote in 1955, it found itself with no Scottish seats and less than 20 per cent of the Scottish vote in 1997 (Seawright, 1999). Clearly, the Party leadership’s decision to fight for a No/No vote in the Scottish Parliament referendum in September 1997 had further isolated it from core Scottish opinion and underlined how much the Party had become an ‘English party’, centred on the south and east of England (Baker 2001).

In terms of the European Union, the erstwhile significant school in the Conservative Party that viewed European collaboration – which could be interpreted as a

form of protection – pragmatically, as a way to secure markets and a greater say in world affairs, is dwindling. In contrast with membership of the “globalising” Anglosphere, which is often considered culturally pre-existent and non-negotiable, support for European regionalism is considered open and renegotiable. Moreover, contrary to membership of the Anglosphere, membership of the EU is often poised in negative terms when it comes to the real crunch issues – i.e. issues of coordination rather than cooperation (see chapter 1 for a distinction between these terms). Finally, while Conservative support for the EU mostly is expressed behind closed doors, amongst elites, criticism of the EU very often is publicly advertised. That is because EU-bashing has become an important means to garner popular support for the Party. In effect, the explicitly pro-European wing of the Conservative Party has been reduced to former power holders such as Kenneth Clarke, Michael Heseltine, Edward Heath, Geoffrey Howe, Leon Brittan and Chris Patten, who often are operating without the support of most Conservative MEPs (Baker and Seawright 1998).

The emergence of David Cameron as the new Conservative leader has only reinforced the above patterns. Cameron tries to differentiate himself from his predecessors Thatcher and Howard by reinventing the old “Anglican democracy” adage in a more compassionate guise. If one strips the compassionate bit from his arguments, however, what is left is exactly what Howard and Thatcher advocated, namely the need to foster “personal responsibility”<sup>876</sup> to counter a drift towards either totalitarian “collectivism” or vacuous “individualism”.<sup>877</sup> With regards to the role of the State, Cameron argues what Conservative leaders have consistently proclaimed, namely that the State’s role merely is to act as the promoter of various forms of voluntary efforts to increase social cohesion (Packer, 1996: 50). Beyond this, Cameron rehearses a mantra of “freedom” that is grounded in an Anglicised version of North American principles rather than concrete home-grown traditions – exemplified by flimsy references in his speeches to the future of internet applications such as “Facebook”. He revels in a public aversion for the EU’s “social chapter”, unintentionally supporting British businesses’ tendency to go cheap, and negating those citizens wishing less income inequality and a higher quality of life nationwide a voice – as well as keeping the economic globalisation discourse incontestable. Finally, by invoking greater attention for manufacturing skills, Cameron intends to bridge the north-south divide in Britain.<sup>878</sup> Unfortunately, since the 1960s and increasingly so, the centre of new manufacturing skills in Britain is the south of England; only a stronger English identity could go some way in countering the overheating of the south and the “under heating” of the north of England. This would mean giving up on the primacy of a British identity and a focus on the modernisation of English identity and union; a very practical idea given the Conservatives’ hopeless position in Scotland and Northern Ireland, yet an unthinkable act given the Conservatives’ predilection to see the British Empire as the apex of their history.

## *ii) Labour Party*

In 1979, electors ousted Labour because of its alleged economic mismanagement, but equally because it could not control trade union militancy<sup>879</sup>, prevent winters of discontent as well as a general feeling of national decline.<sup>880</sup> At least three other failures of “Old Labour” during the 1970s and 1980s would usher in the emergence of “New Labour” in the 1990s. There was the continuing decline of industry in the North, and Labour’s failure to halt the acceleration of a North – South divide in favour of a London-based service and “new industries” economy. This failure was aggravated by the Labour government’s incapacity to enforce respect for the English traditions of secular

Anglicanism and Anglican voluntarism in the North – the litmus test of a “party worthy to govern” for voters in the Home Counties, and increasingly the Midlands too. Finally, there was the loss of successive elections against an increasingly authoritarian Thatcher regime, which sought to substitute North American “anyone can get rich”, classless traditions for “bankrupt” Tory traditions.

Old Labour’s grandstanding throughout the 1970s and 1980s weighted preciously little in the balance against the two discourses of inevitability embraced by Thatcherites, namely the superiority of Anglo-Saxon “liberal democracy” and the unstoppable nature of globalisation. For instance, during the 1970s and 1980s, the leftist part of the Labour Party repeatedly turned its attention to the question of nationalisation of financial institutions – after more than two decades of truce, following the nationalisation of the Bank of England in 1946 (Pollard, 1979). First, a 1971 conference resolution called for nationalisation. This call was followed by policy documents produced by the Banking and Insurance Study Group in 1976 and the NEC’s “The City: A Socialist Approach” in 1982. Although all this grandstanding electorally ineffective, the Party’s emerging new leadership deemed it not entirely inappropriate, given the need to play to the galleries when in opposition. When push came to shove, however, “good elite opinion” always prevailed; time after time Labour’s leadership proved more prone to socialisation in the establishment’s orthodoxy than in grassroots’ grievances of income inequality and a lack of social mobility (Gourevitch, 1984: 120). Thus, New Labour’s most prominent leaders Blair and Brown managed the enormous feat of presenting themselves as quasi-Marxists when in opposition, before suddenly turning City of London orthodoxy into a progressive policy once in government. Indeed, New Labour’s leaders Blair and Brown quickly dropped any ideas of a capital levy on City business in favour of domestic industry; furthermore, they made no secret of their ambition to turn Labour into the “natural party of business”<sup>881</sup> (Osler, 2002), i.e. to prioritise London’s global ambitions over domestic issues of inequality and lack of social mobility.

Geopolitically, Old Labour’s transformation into New Labour revealed more continuity than change. In particular, New Labour was the logical conclusion of a core Party constituency’s century-long attempts to escape the insularity of class politics (Cronin, 2006) through geopolitical means. Due to a record percentage of home-ownership, English class politics in at least one way had been overcome since the 1980s. Thus, the decline of Old Labour’s prospects since the 1983 election has been attributed to the development of substantial working-class ownership – and the marginalisation of council housing (Rubinstein, 1986: 104).

All in all, the difference between Old and New Labour may have been exaggerated. Notwithstanding its reputation of being inward-looking and bogged down by its dependence on trade unions, Old Labour since the 1920s has remained true to the same geopolitical strategies that New Labour has embraced –the latter admittedly with more evangelical conviction. First, whenever in government, Old and New Labour cabinets at the first sign of crisis have turned to the “one-world system” and “economic liberalism” dogmas to rally majority support (Strange, 1967; Overbeek 1990; Milward and Brennan 1996).<sup>882</sup> That is, in spite of continuing advocacy by the left-wing of the Party for a greater focus on domestic industry. Second, due to its long-held ideology of “liberal interventionism”, and its derision of Conservatives’ moral panics about the decline of national traditions, the Labour Party has long been more open to Americanisation tendencies than the Conservative Party. Revelling in their role of “shock troops of

modernity”, Labour cabinets generally have been less reluctant than their Conservative counterparts to pledge loyalty to the triple alliance of financial globalisation, Anglo-American leadership and business school evangelisation. Clearly, however, post-Thatcher Conservatives have more than lost their reluctance in this regard.

Third, while it is true that from the 1960s onwards, Labour governments acquiesced with the Conservatives’ decision to acquire EEC membership, it is also true that core constituencies of the Labour Party have set much of the anti-European trend in England. For instance, Labour left-wingers played a leading role in the “No” campaign for the 1975 referendum on the Common Market. Interestingly, even Tony Blair was a prominent anti-EEC campaigner in the 1970s. It is often claimed that after Neil Kinnock’s ascendancy to leadership in 1983, anti-Europe MPs lost their dominant voice in the party. Still, regarding the Maastricht Treaty, Labour leaders at the left of the Party were even more Euro-sceptic than Conservatives, counter posing their socialist internationalism to the capitalist Common Market: “the European Community is the instrument of...the archbishop and the bishops of international capital”.<sup>883</sup> Allegedly, the 1990s witnessed the Europeanisation of the Labour Party with growing support for the European Union’s economic and social agenda (Gamble and Kelly, 2000b: 3-5). Once in power, “New Labour” endeavoured to take a more constructive approach towards the Union, albeit always with a clear “liberalisation” and “one-world system” agenda (e.g. Callaghan, 2000). Before the emergence of New Labour, the UK had already adopted EU competition policy, for instance regarding cartels; some say because this amounted to an Americanisation of the EU anyway. With Blair, UK social policy has also been modestly Europeanised, although Americanisation has been more eagerly and voluntarily than EU adaptation; whereas the former has been informally adopted and without much contestation, the latter has been largely “obligatory” in nature, i.e. arising from the corpus of EU social law and policy (Annesley, 2003).

It is important to understand the symbiotic relation between Labour and the Conservatives when it comes to influences of Americanisation and Europeanisation. In retrospect, the Conservative Party on both accounts – Americanisation and anti-Europeanism – has done no more than continue those Labour initiatives that had gained a foothold in mainstream popular opinion. Thatcher’s policies exemplify this trend. Arguably, she did no more than follow through – with an uncanny ruthlessness – muddled choices by the Labour government, namely to opt for a monetarist macro-economic policy, use the discourse of globalisation as the carrot and stick for accelerated de-industrialisation, and give up on a positive contribution by the trade unions. What Thatcher arguably did add to Labour’s legacy was a copy of the North American “New Right” ideology and rhetoric about the welfare state (Pierson 1994; King 1995). But even then, Labour and Thatcher have to be seen as two sides of the same coin. Just like Old Labour’s “global mindset” antecedents helped the public digest Thatcher’s shock therapy, the coming in to being of New Labour was facilitated by the evangelical Anglosphere antecedents set by Thatcher’s government. For instance, because Thatcher eliminated financial support to alternatives, New Labour governments encountered little resistance in popular opinion when announcing their main purpose: making the English population fit for global capitalism (Crouch, 1999: 70). Also, there has been a continued influence of the US on UK social policy under New Labour (Jordan 1998; King and Wickham-Jones 1999; Deacon, 2000). Finally, the departure of Thatcher in 1991 coincided with the return of Christian socialism on Labour’s agenda, and the election of first John Smith and then Tony

Blair as leaders of the party. In marked contrast with their immediate predecessors, both Smith and Blair were able to acknowledge their religious faith as an important inspiration for their political convictions. Thus, starting with Smith, there was a “renewed use of moral language”, although geared towards “civic values” rather than overtly religious values such as in the US (Dale, 2000: 212).<sup>884</sup>

In sum, despite the existence of a small Europhile minority in each Party, the Labour Party, as the Conservative Party, balances the discourses of hyperglobalism and intergovernmentalism through implicit reference to a regional Anglosphere. Admittedly, since the 1990s, New Labour has been integrating European regionalist elements in its hyperglobalist discourse, to fill in the social-democratic void created during the transition from Old to New Labour. This is an integration by proxy, however. It is meant to compensate for the decline of a home-grown “social democratic” discourse. For instance, new Labour MPs for a few years embraced the European Union’s “social charter”, to compensate for the devastating conclusions of the Labour’s Policy Review of 1987-1989, and in face of the support in popular opinion for Conservatives’ efforts to weaken the traditional powers of English labour unions. This charter for a few years functioned as a proxy for the domestic lack of a constructive relationship between the government and workers’ representatives.<sup>885</sup> At the end of the day, it proved to be only a transitional proxy: when push came to shove, New Labour has time after time pledged to opt out of the EU’s social and human rights clauses.<sup>886</sup>

Clearly, when push came to shove, every New Labour leader in government has made clear its affinity to US “liberal” and “free” traditions and its antipathy for European “bureaucratic” and “regulatory” traditions. Albeit ironically the Washington administration is four times bigger than its Brussels equivalent; and in spite of the growing international prevalence of US-style regulatory capitalism (Cook et al., 2004; Jordana and Levi-Faur, 2004; Majone, 1994, 1997; Manzetti, 2000) – and its embodiment in a “Council of Wise” tradition of democratisation.<sup>887</sup> Beyond all the rhetoric, however, what is clear is that, while antagonism for the European Union is very real in the UK, and support for the US higher than in other Western European countries, these issues have a low electoral salience. Thus, English voters consistently rank the issue of Europe far below the familiar issues of a modern welfare state, health, education, pensions, the economy, unemployment and transport. All in all, *rather than a real part of their national identity, the EU has become a way for both Conservatives and Labour to fight a symbolic proxy war over what they have lost since the Thatcher era: the capacity to produce distinctive policies away from the universality of the “liberal” tradition – a misnomer for a set of US-specific republican settlements that increasingly has taken the geopolitical form of a mercantilist strategy* (e.g. Higgott, 2003; Levi-Faur, 1998).

To revitalise the British identity Brown is now playing the “politics of nationhood” card, i.e. the slogan of Britain as a “conservative nation”. A Tory trump card since Disraeli’s era, the politics of nationhood established the Conservatives as Britain’s natural party of government for much of the modern era (cf. Lynch, 1999). Keen to dispel “Old” Labour’s anti-national image once and for all, Brown is doing more than playing Disraeli’s card for the umpteenth time, however. For one, not being Scottish, but English, Disraeli and consecutive Conservative leaders primarily meant England – not Britain – by conservative nation. Second, Brown’s widely advertised admiration for American patriotism and Christian values, and his desire to infuse Britain with a similar Christian-patriotic fervour is eerily reminiscent of the Thatcher project rather than Disraeli’s politics

of nationhood. While before Thatcher English prime ministers were guilty of neglecting the modernisation of English traditions of democratisation, from Thatcher onwards prime ministers were guilty of confusing English/British with Anglo-American/Anglosphere traditions. Unfortunately, by choosing to focus primarily on the readying of the shock troops of global modernity, the modernisation of English traditions of democratisation is being shelved – once again. In doing this Brown, as his predecessors Thatcher, Major and Blair, is relinquishing control over the meaning of English traditions to less bashful parties: North Americans, who for centuries have presented Anglo-Americanism as the modern English equivalent of outdated Anglicanism; and Murdoch's and Black's media empires, with their xenophobic undertones and unreconstructed English supremacy ideology.

After more than a decade in power, New Labour now appears quite old again, and the cyclical nature of electoral politics is likely to favour the Conservatives during the next parliamentary elections.

### *iii) Liberal Party*

A revival of the Liberal Party was again announced in the late 1960s and 1970s, a period which witnessed a relative "liberalisation" of lifestyles and class relations, for instance in terms of the greater acceptance of consumerism and secondary and higher education changes. Tempered by a spirit of "secular Anglicanism", these changes were timid, however, as exemplified by the belated – in comparison with the US and France, but not the Netherlands – breakthrough of the new feminist and citizen's right movement in the 1970s. Class backgrounds and relations remained dominant in the conduct of English political, civic and economic life (Marwick, 1996).<sup>888</sup> Still, these liberalisation pressures gradually brought back into the limelight the fragility of old intermediary institutions, especially regards the cohesion of local community life. The Liberal Party took advantage of this by formally adopting a strategy of community politics in 1970, a strategy that would prove most successful in the North of England.

The real revival of the Liberal Party would come as a result of the secession of number of Labour and Conservative MPs from their parties in 1981, and their efforts to found the Social Democratic Party (SDP). In the same year, the Liberal Party and SDP formed an electoral Alliance. The Alliance's political impact was immediate, as it managed to a string of by-elections, and 26 per cent of the vote in the 1983 general election, the best third-party performance since 1929. Still, in the British first-past-the-post electoral system, 23 percent of the vote only equally 23 parliamentary seats as against, 209 MPs for a Labour Party that won 28 per cent of the vote. Supplementing its focus on community politics, the Alliance opposed Thatcher's support for the Anglosphere – home of the "trans-Atlantic intellectual Right", and warned of "the Americanisation of Britain, complete with sharper inequalities, greater levels of private corruption and of civil violence, and the acceptance of an alienated underclass of unemployed and unemployables."<sup>889</sup> Soon, however, differences emerged between the SDP and the Liberals on economic questions and, principally, on defence, with the SDP much more strongly in favour of a British nuclear deterrent than the Liberals. In 1988, however a considerable part of the MPs of the two parties decided to merge, on initiative of the Liberal leader, David Steel. The name of the Party eventually became the "Liberal Democrats".

After a very bad start in the European elections, the Party started regaining its grassroots membership with a renewed combination of community politics and anti-Americanism – under the leadership of Paddy Ashdown. Ashdown's pledge to raise income tax to invest extra resources in education, was hugely popular, earning the party

17.8 per cent of the vote and 20 seats in the 1992 general election. Ashdown's undisguised anti-Toryism also contributed to this success.<sup>890</sup> In 1995, the Liberal Democrats even became the second party of local government. Thanks to their community politics, the Liberals also became the main opposition to Labour in many urban areas.<sup>891</sup> And with the election of Charles Kennedy to leadership, the Party's reinvention of the Liberal position of "educators of the people" gained even more resonance, translating in very strong electoral results, both national and local. In foreign policy matters, the Liberal Democrats reinvented voluntaryist thought on foreign affairs in the spirit of the late Victorian Auberon Herbert. Although less pacific than his contemporary equivalents, Herbert was a supporter of free trade and national self-determination as a means of promoting international peace and co-operation (Edyvan, 2006: 3). And regarding domestic affairs, the Party reinvented the Edwardian New Liberal position that the state should assist the development of morality in society, by promoting individual autonomy within a common interest. In spite of all their efforts to distance themselves from Thatcher, from an economic policy viewpoint, the Liberal Democrats clearly also are Thatcherite heirs.<sup>892</sup> Thus, as Thatcher, the Liberals are in favour of "the marketisation of public duties" (Bevir and Rhodes, 2003: 51), and a strong, but limited State that can achieve this goal (cf. Crouch and Dore, 1990; Gamble, 1988).

#### *iv) Bank of England*

While the Bank of England continued to champion the City during the 1960s and 1970s, its ability to supervise the activities of its constituents through its old informal methods declined rapidly. One major reason for this decline was the division between resident business in sterling and offshore foreign currency business. The former attracted plenty of Treasury controls – aimed at bolstering the exchange rate. The lack of regulatory or supervisory attention to the latter, by contrast, encouraged the immigration of foreign banks and bankers who eventually would out compete many British banks in the City. Some argued this was a good thing, as it exposed the inefficiency of British banks (Gowland, 1990). Others maintained that it were the overseas banks who were disadvantaged, because they were being excluded from British regulatory decision-making process. The real culprit was that sectional, « meso-corporatist » part of the financial sector that undermined the much needed revival of the City of London; and Britain in face of the crisis of the Fordist, industrial model (Jessop, 1990; Moran, 1991). Criticisms of meso-corporatism were in line with the reports of the 1968 Monopolies Commission and the 1967 National Board for Prices and Incomes. Both reports maintained that commercial banks' cartel over-emphasised non-price competition, led to a greater spread between investment and lending rates than would have been the case under a more competitive system, and consequently left the « inefficiency » of smaller banks unpunished.<sup>893</sup> One way or another, changes in the regulation of US securities markets during the 1970s were endangering London's position in the international financial system. The Bank of England responded by introducing its Competition and Credit Control (CCC) reforms in October 1971. The two aims of these reforms were to put British clearing banks and foreign banks on an equal competitive footing; and to, for the first time in contemporary British monetary history, control money supply aggregates rather than bank loans and credit<sup>894</sup> (cf. Goldberg and Saunders, 1980: 639-640).<sup>895</sup>

Why did the Bank of England choose to go ahead with the CCC reforms? Despite some occasional doubts about the destabilising aspects of the Euro-dollar markets, the Bank of England in the early 1970s remained as keen as it had been in the 1960s to keep

them based in London, along with as broad a range as possible of foreign bankers and others. So, did world-state concerns prevail? Yes and no. First, the monetary policy of the authorities in the period from 1960 to the introduction of competition and credit control in 1971 rested on the assumed dominance of the clearing banks (Grady and Weale, 1986: 64-65). Thus, the Bank of England's « conscious purpose » with this new regime was to allow English clearing banks to compete aggressively in banking and credit markets, and in this way contract the foreign and domestic « fringe ». For similar reasons, the Bank in 1968 had favoured mergers between the clearing banks (Moran, 1984 : 50).<sup>896</sup> Another reason for CCC was that it allowed the Bank of England to continue carrying out its public responsibilities without adopting more formal powers: its supervision of newcomers under CCC continued to rely almost wholly on an informal, personal touch (Kynaston, 2001: 442; Moran, 1984). This also was the clearing banks' preferred way.

It took a secondary banking crisis in the period 1973-1975 for these piecemeal measures to be considered inadequate. As the lending of non-clearing banks to speculative sectors of the economy increased in the early 1970s, the liquidity of the English banking system fell markedly. And some leading clearing bankers admitted they should stop sheltering behind the « cosy complacency of the Committee of London Clearing Bankers », which involved unhesitating co-operation “with the monetary authorities to an extent which has become subservient”.<sup>897</sup>

The government was urged to concentrate even more on setting the conditions whereby London could retain its international leadership in financial services; most notably through a wholesale formalisation of prudential regulation. In a belated response, the government in 1979 abolished all foreign exchange controls, so as to strengthen the role of the City of London in the world's financial markets. The 1979 Banking Act increased the regulatory powers of the Bank of England to compensate for this abolition of controls.<sup>898</sup> This piece of legislation also was a response to the 1977 EC Banking Directive and the realisation that the Department of Trade Industry – which under the Companies Act had been responsible the activities of secondary banks – was ill-equipped for the task.

Like Norman between the wars, Richardson – Bank governor between 1973-1983 – had managed to keep the government out of the finance/industry relationship (Kynaston, 2001: 509-510). With the ascendancy of Thatcher, such efforts became superfluous. Once in power, Thatcher ignored all appeals to prop up domestic industries, and followed through Labour's halfhearted initiatives to renew the City of London's central place in world markets with evangelical conviction. In the best British tradition of State-led financial openness, her government in 1986 introduced the famous “Big Bang” legislation – described as a Big Bang, because it deregulated so many of the markets that were ruled by old boy clubs and sidelined the Bank of England's prudential powers to some extent. This legislation aimed at abolishing all remaining restrictions on securities market access, inducing foreign banks to get fully involved, and leaving building societies as well as life insurance companies with no choice but to get involved. It systematically organised all the main markets into a hierarchy of self-regulating organisations, a move that allowed for the rhetorical maintenance of the “old boy” tradition of democratisation – Anglican democracy, voluntarism and neutrality, and its reorganisation on the basis of tight State-backed controls. The self-regulating organisation gained monopoly control over the rules of membership and entry to the market they were assigned to. In turn, their own rules and internal government were subjected to oversight by an overarching self-regulatory organisation, the Securities and Investments Board, which in effect licensed all self-

regulating organisations (Vogel, 1996). The Securities and Investments Board speaks the language of self-regulation, and as the Federal Reserve is constituted as a corporate body financed by a levy on the industry. At the end of the day, however, the Board's authority is based on statute: its own constitution is prescribed in law, its leading officers are publicly appointed, and it is required to report to Parliament and Whitehall headquarters.<sup>899</sup> As in the US, all this regulatory zeal was accompanied by a great deal of legal codification, an altogether alien development in a country famed for its "uncodified" constitution – albeit the latter is an exaggerated claim.<sup>900</sup>

Big Bang legislation was accompanied by the 1986 Financial Services Act – a law in response to an alliance of State modernisers and big firms that wanted more effective anti-fraud controls to position the City as a key location in the global financial services industry.<sup>901</sup> In spite of all re-regulation, such as the 1987 Banking Act which gave it further formal powers (Norton, 1991) – the Bank of England was now much a weakened authority in the City. Essentially, the Bank was transformed from the City's – particularly the clearing banks' – representative in the State to the State's representative in the City; a State obsessed with the watchwords « globalisation »<sup>902</sup> and « market efficiency » (Leysdon and Tickell, 1994). Not surprising in view of the Bank's weakened authority as well the large amount of new legal codification and State-backed controls, what followed after the passage of the 1986 Financial Services Act was more than a decade of confusion and instability in financial regulation and internal struggles within the industry. In response, after emerging victorious from the 1997 elections, New Labour handed the Bank of England back its operational independence – the Bank was allowed to set domestic interest rates. Yet, this did not signify a wholesome return to the good old days. The 1998 Bank of England Act also stipulated that, ultimately, the government retained control of the final objective of monetary policy. Through a new Monetary Policy Committee, the Bank of England's duties were formalised: maintain price stability – a specified low inflation target, and support the Government's economic policies, including its growth and employment objectives – a relative novelty.

If this were not enough, the Bank's authority was overshadowed by a new regulatory giant: the Financial Services Authority (FSA). Originally established in advance of the law in 1997, the FSA derived its powers from the statute of the 2000 Financial Services and Markets Act.<sup>903</sup> By virtue of statute, the FSA has displaced the Bank of England from any significant role in prudential regulation of markets or institutions.<sup>904</sup> It is the sole government agency responsible for bank regulation and in effect licences all institutions and products: authorisation, standard setting, supervision, and enforcement come within its powers<sup>905</sup> and not those of the Bank of England. In comparison with the Bank of England, the FSA enjoys a very different relationship with the central state. The Treasury appoints its Board. Furthermore, the FSA is required to report annually to the Treasury and the House of Commons – in particular the Commons' Treasury Select Committee.<sup>906</sup>

Beyond regulatory developments in the City of London, the international financial instability that accompanied the breakdown of the Bretton Woods fixed-rate system provided fertile ground for the extension of central bank co-operation.<sup>907</sup> Under the leadership of among others George Blunden of the Bank of England, a committee was set up at the Bank of International Settlements to co-ordinate prudential supervision. From these modest beginnings an intricate system of international banking supervision would emerge – resulting in a first and second "Basle Accord" in respectively 1988 and 1999-

2001, both of which heavily influenced EU banking directives. And the Bank of England played a leading role in this system – at least when the US Federal Reserve consented. For instance, the agreement on capital adequacy in 1986 was reached first on a bilateral basis between the Bank of England and the Federal Reserve, and then sold to other central banks (Pringle, 1995: 142-143). The Bank of England thus had found another way to circumvent the EU and remain influential as a world-state rather than regional proponent – at least if we discount the Anglosphere as regional entity.

### **11.3 Firms' strategic positions in new settlements (phase 3)**

#### **11.3.1 Renewal of democratic settlements**

Arguably the greatest merit of Thatcher's regime is that it increased the consistency with which England embraced the unintentional consequences of WWI – the Empire's secular decline, New York's eclipsing of the City of London, and Britain's dependence on the US to uphold the "liberal tradition" in international trade matters. Indeed, according to some, the emergence of Thatcherism amounted to nothing more than another swing of the pendulum, a variation on the same old British tune. This observation carries a lot of truth when one assumes British history starts after WWI. For instance, just like Stanley Baldwin gave in to the miners in 1924 only to stand firm against them in 1926, Margaret Thatcher gave in to them in 1982 only to firmly rebuke them in 1984.<sup>908</sup> Similarly, the "anti-waste" movement that swept British popular opinion was as strong in Baldwin's 1920s than in Thatcher's 1980s. Furthermore, in the late 1970s and 1980s full employment was abandoned on the altar of monetary reform, just as in the 1930s. And the large-scale privatisation of sectors of industry previously owned by the state in the 1980s made no more difference to the actual relations between capital and labour than did nationalisation after 1945. Also, Thatcher's use of religious metaphors and references may not be so groundbreaking after all, if one considers that for instance Anthony Eden in 1947 promoted his belief in "Christian virtues" (National Union of Conservative and Unionist Associations, 1947: 42). The same applies to Thatcher's anti-State rhetoric. She simply repeated what Eden had maintained in 1947: "complete State domination is utterly repugnant to our democratic traditions and the whole political instinct of our people. The function of the State is to give the fullest possible scope to the free development of the individual".<sup>909</sup> Finally, if we scratch away the radical appearance of Thatcher's rhetorics, it becomes clear that the relation between the economy and the state remained fundamentally unchanged during her ten year reign. Government expenditure as a proportion of GDP in 1990 was only some 4 per cent below what it was in 1980, and the proportion of national income taken in tax remained constant over the decade at round about a third (Runciman, 1993: 64). In sum, Thatcher's "radical politics" did not constitute a clean break at all; she did no more than continue what had been initiated by her predecessors many decades before. Even in relation to the most recent period, Thatcher simply continued what Callaghan had started: the move to monetarism in 1976 in coordination with US central bankers, and the start of a massive FDI inflow from the US in 1977. All this had been initiated not by Callaghan or Thatcher, but under pressure of large UK multinationals who saw the US as the last bastion of capitalism.<sup>910</sup>

*a) Success and failure of Thatcher: confusion of national contexts?*

Thatcher's legacy provided a mixed picture of success and failure, the success part involving her willingness to modernise old-fashioned traditions and put Britain – the City of London – at the vanguard of US-led globalisation trends. One could argue that in absolute terms, Thatcher's failures were not greater than most of her 20<sup>th</sup> century predecessors. Yet, in relative terms, Thatcherism did amount to a qualitatively different stage in English history in one unique way: the degree to which the nation's homegrown traditions of democratisation were confused with another nation's traditions as a recipe of geopolitical success. It is well known that all post-WWII prime ministers except for Edward Heath were committed Atlanticists and occasionally wallowed in the thought that the Pax Americana was a mere continuation of the Pax Britannica. And all have reflected the collectively held belief that their country's Anglican nonconformism sets a "free England" apart from an "unfree continent" (Pfaltzgraff, 1969: 2). Contrary to her post-WWI predecessors, however, Thatcher seemed unaware that under the thin veneer of Atlanticism resided enormous differences between US and English traditions of democratisation. As a self-avowed "Anglo-Saxon Nonconformist" (Smith, 2007) or "evangelist" (Coleman, 1971: 9), Thatcher convinced herself and many Conservative colleagues that shared Anglo-Saxon ethnic and religious traditions set these two nation-states apart from others. Contrary to Europe which has always been ethnically diverse and dominated by a Catholic hierarchy, the United States is the offspring of a free and nonconformist community of English settlers (Fischer, 1989: 787; Thatcher, 1991: 509; Thatcher 2002: 21, 358–59).

But because Thatcher confused the national contexts and histories of England and the United States to an unprecedented degree<sup>911</sup>, she did not reinvent the English success model of "Anglican nonconformism", but its US equivalent – "American nonconformism". In an extraordinary display of historical invention more than reinvention, Thatcher distanced herself from homegrown traditions which she saw as an historical aberration from England's real success model: the traditions of Anglican voluntarism, secular Anglicanism, Anglican democracy and neutrality maintained by intermediary institutions such as clearing banks, building societies, public utility companies, trade union and employer organisations, the Church, the BBC, quality newspapers, the legal and medical professions, and the civil service. Instead, Thatcher's government promoted traditions which in her mind laid the basis for the most glorious periods in English history, but in fact were idiosyncratic US traditions that lacked contextual support and historical resonance in her home country: "Real Whig voluntarism", "happy mediocrity", "Council of Wise democracy" and "anti-State pluralism".

Thatcher supposedly was an admirer of Victorian values (Samuel, 1992: 22-23), which she associated with those special voluntarist qualities of "self-reliance, personal responsibility...being prepared to lend a hand to others".<sup>912</sup> Clearly, the voluntarism she referred to was of a nonconformist rather than Anglican nature; she associated the heydays of enterprise and liberty with the rise of voluntarist values of "selflessness and benefaction", "thrift" and "hard work" (Thatcher, 1977: 53-54). Though highly charged and selective, Thatcher's repudiation of Anglican voluntarism and her reification of nonconformist voluntarism as an "eternal truth" in UK history enabled her to cast the welfare state in the guise of "old corruption" and vilify Labour as ossified and anti-national (Campbell, 2003: 182). Thatcher kept repeating that because of Labour, Britain's Christian identity was being eroded and that, confronted with the merciless forces of globalisation,

the survival of British democratic capitalism depended on the replenishing of the link between “evangelical and materialist systems of meaning” (Smith, 2007). Tellingly, she summarised the four characteristics of the British nation that had sustained it in the past: “the acknowledgement of the Almighty, a sense of tolerance, an acknowledgement of moral absolutes and a positive view of work”. Contemporary generations were warned to renew these “spiritual assets if the integrity of the nation is to survive” (Thatcher 1981: 125).

Did Thatcher make a relevant historical point? The rise of nonconformist voluntarism in Britain in the seventeenth and nineteenth centuries each time had been rather short-lived. The first outbreak had led to a large exodus to the US; the second “outbreak” arose in quite exceptional circumstances, because of the rapid urbanisation of the English regions north to the home counties – where Anglicanism had not taken firm root. By the beginning of the eighteenth and the twentieth centuries, the establishment had managed to smother the nonconformist “threat” to Anglicanism in a rather peaceful way. How did it achieve that? Each time the character of nonconformist voluntarism had been transformed in two ways. First by making legal and economic concessions to dissenters – as for instance the Whigs and Gladstone had done. And second by casting continuing religious dissent in the role of extremist, anti-national threat, i.e. a danger to the geopolitical strength of Britain – that free island of nonconformist Anglicanism. That the Anglican religion in the process became entirely secularised actually served the establishment well, especially the Whigs amongst them. In sum, every time there was a significant outbreak of nonconformism, proponents of the traditions of secular Anglicanism and Anglican voluntarism stepped in to take the religious sting out of movements of dissent and deflect all nonconformist anger into a national credo of “Anglican nonconformism”. Remarkably, this each time re-energised the country’s geopolitical position and imperial fervour.

So, is a new resurgence of dissent underway? In stark contrast with the US, English dissent in the twentieth century almost exclusively has had a secular character, similar to French dissent and far removed from any religious notion of voluntarism. One of the only remaining legacies of voluntarism in England is that attempts by the central State to infringe on the taxation freedoms of local authorities by and large are seen as anti-democratic.<sup>913</sup> Paradoxically, this is the one aspect of voluntarism that Thatcher was most keen to kill off. The general perception was that many local authorities were in the grasp of collectivist Labour or even Conservative politicians – derogatorily called the “geriatric right” because of the average age and relative passivity of the councillors (Lansley et al., 1989: 3; Seyd, 1987).<sup>914</sup> Thatcher therefore repeatedly tried to expand central state powers to local taxation matters, with mixed success - and ultimately contributing to her demise.

All these contradictions point to only one conclusion, namely that Thatcher was not referring either to Anglican voluntarism or voluntarism, but to an imaginary voluntarist context – a “Real Whig” context – shared by Britain and North America (see chapter 11, p. 394, 396).

***b) Elements of confusion of US and UK contexts***

In many ways, Thatcher’s coalition was an evangelical descendant of the 1882 “Liberty and Property Defence League” (Green, 1991: 88). This League was a rather sectarian coalition of vested interests which had become afraid of the growth of the welfare state, and the infringing effects of democracy on their property and status entitlements. The League’s strategy up to WWI was the defense of the status quo with the weapon of *laissez-*

faire (Soldon, 1974: 208, 210-213).<sup>915</sup> It represented a persistent, but minority strand of « New Right Populism » with jingoistic overtones. As with the old League, Thatcher's coalition represented a rather sectarian part of a society ridden with class differences: those middle and lower middle classes most prone to anti-taxation, anti-trade union and anti-State issues. As her predecessor, but this time with real governmental power, the new Liberty and Property coalition wielded the weapon of laissez-faire to restore a link between the British nation, liberty and property that could not be challenged by interest groups with more « social democratic » aims. To achieve this, Thatcher combined her nationhood strategy with very pragmatic domestic and geopolitical tactics (Lynch, 1999: 46). Domestically, she demonstrated pragmatism in unleashing her most radical "liberty and property" instincts only after her second, stunning electoral victory in 1983. Geopolitically, pragmatism meant that Thatcher built on both the victory in the Falklands War, the ascendancy of Reagan<sup>916</sup>, and the appeal of an « American dream » discourse of financial opportunity to recast Britain in the new hegemonic context of the Anglosphere: a sphere devoid of « trade union hotheads » in which low taxation, low government spending, deregulation and privatisation reign supreme (cf. Howell, 2000, 2004).

Thatcher's recasting of British history in an imaginary Anglosphere light did not stop here, but involved at least two more exercises of historical overstretch and confusion. She framed Britain as as much of a nation of shareholders as the US. Citizens were waiting to "come out" as shareholders; they just needed the right incentive. And she mimicked US mythology of the classless society – i.e. the middle class society, denying the inescapability of class issues in Britain (e.g. Cannadine, 1999), and repudiating the "paternalistic" institutions of society. Let us have a closer look at both points.

Thatcher's government hoped that a resolute and sustained strategy of privatisation would finally turn Britain in what it was meant to be: a nation of shareholders, just like the US. While it is true that England experienced a flurry of small shareholder republics in the nineteenth century, these had become rather stale by the beginning of the 20<sup>th</sup> century. Indeed, during the 20<sup>th</sup> century, stock market participation has always been much higher in the US than in England – and the UK at large. Prior to the mid-1980s one could point to a tax bias in England and the UK away from direct holdings of equity towards wealth held in housing or occupational pensions – since equity was more heavily taxed than consumption, and housing and pensions benefited from tax advantages relative to consumption. And given the structure of the tax system these differences were significantly greater in times of high inflation such as the 1970s and 1980s. With the introduction of Personal Equity Plans and Employee Share Ownership schemes in 1987, and the phasing out of tax advantages for building societies, the English nation of shareholders was running out of excuses: equity now could be held in an equally favorably taxed manner by English and US households (Banks et al., 2000: 27). Thus, from the late 1980s England has experienced substantial levels of direct share ownership, although still not comparable to those in the United States. In addition, several other differences persist between the US and England. First, the direct holdings of equity of many stockholders are comparably small in England and the UK at large (Banks, Blundell. and Smith, 2002a). Also, tenure of new shares by English households has been much more short-lived and driven by speculative peaks than in the US. Third, there is a large discrepancy in the type of equity held by English and US households since the 1980s, something differential rates of return in each country's equity markets alone cannot explain (Banks et al., 2002: 258). One reason is that the higher house price volatility in England provides important

incentives for English households to become house owners and accumulate equity in housing earlier in their life-cycle (Banks et al. 2004). Strikingly, the wave of demutualisation in the building society movement in the 1990s – and the speculative phenomenon of carpetbagging – meant that by December 1998, English individuals held a significantly larger proportion of the recently demutualised companies, 48.5 per cent, than they did of the market as a whole (16.7 per cent). This figure had decreased from 60 per cent at the end of 1997 (Office for National Statistics, 2000;<sup>917</sup> Office for National Statistics, 2007)<sup>918</sup>

Fourth, differences in attitudes toward capitalist financial institutions persist between the US and England, a nation characterised more by class contestation of capitalism than classless love for capitalism. More similar to continental European countries than the US in this regard, the stock market has long been seen as one of the most vivid symbols of wild capitalism. This distrust could be one reason why the equity boom that eventually occurred in the UK affected fewer households (Banks et al., 2000: 28).<sup>919</sup> Even compared to some of their purportedly social-communitarian European counterparts, UK households' share ownership is relatively low. Thus, while the Italians, Belgians and Finns hold a comparatively higher share of their financial wealth in the form of securities – at a rate of almost 3 to 1 in case of the Belgians, the wealth of English – and Dutch – households comprises a comparatively very high proportion of life insurance investment and pension fund reserves (Marionnet, 2006).

Finally, in historical perspective the notion of England, or the UK as an emerging nation of shareholders is somewhat imaginary. The figures speak for themselves. In 2006, UK individuals owned £239 billion of UK shares (12.8 per cent<sup>920</sup> of all UK shares listed on the London stock exchange) down from 54 per cent in 1963, 20 per cent between 1989 and 1994, 16.5 per cent in 1997, and 14 per cent in 2004 (Office for National Statistics, 2006<sup>921</sup>; Office for National Statistics, 1997<sup>922</sup>).

**c) *Traditions of Anglican democracy and neutrality are sidestepped***

To reinvent a new England and Britain devoid of the class, union and economic problems of the past, Thatcher's government used the Anglosphere idea in another way. By repudiating the "paternalistic" institutions of society, Thatcherites in effect aspired to creating a classless Commonwealth. In doing this, they declared irrelevant the homegrown traditions of *Anglican democracy* and *neutrality* – and their institutional vehicles, namely the civil service, the Lords, the medical, legal and educational establishments. Since these latter institutions historically had upheld the unwritten understandings of the British constitutional state and functioned as the established channels of democratic settlements, Thatcher was responsible for creating an important democratic vacuum (Moran, 1999). Again, the New Right would draw inspiration on North-American traditions to fill this vacuum, albeit often more instinctively than strategically. Instead of in terms of Anglican democracy, institutional innovations were encouraged in the mould of the so-called "Council of Wise" tradition of democratisation. Contrary to European traditions of democratisation such as Anglican democracy - which are premised on the organic interdependence of different social classes, this US tradition is based on the assumption that, since everyone is free and has equal opportunities, everyone is part of the middle class and class strife is ontologically irrational. As argued in chapter 8, the Council of Wise tradition has its origins in the constitutional founding fathers' distrust of the "inflationary" instincts of the masses and their belief that popular participation in government had increased to such an extent as to be incompatible with free government

(Dietz and Hamilton, 1960: 131). In order to provide the disciplined propertied classes with constitutional safeguards against the irrationality of the masses, the founding fathers ensured a central place in the democratic system to institutions governed by a council of wise men – in their own image. The most notable examples of such “Council of Wise” institutions are the Supreme Court and the Federal Reserve Bank. Because the latter was explicitly modelled on the Supreme Court, it has been historically perceived by US citizens as “essential to the preservation of their liberties” (Burns, 1979: 381-382).

**d) *The Bank of England and the Financial Services Authority***

In comparison, the Bank of England has never acquired an equivalent constitutional primacy or autonomy in Britain<sup>923</sup>; its considerable merits notwithstanding, it has remained a highly contestable institution throughout the centuries, prone to accusations of profiteering when it still was a private bank, and always in danger of being nationalised once it had acquired a more public character. Thatcher’s government endeavoured to mimic the Fed’s “Council of Wise” character – as well as its unique public-private character, but not its federal nature – with the introduction of the Financial Services Act in 1986. Described as a Big Bang, because it deregulated so many of the markets that were ruled by old boy clubs and sidelined the Bank of England’s prudential powers to some extent, this legislation systematically organised all the main markets into a hierarchy of self-regulatory organisations. These organisations gained monopoly control over the rules of membership and entry to the market they were assigned to. In turn, their own rules and internal government were subjected to oversight by an overarching self-regulatory organisation, the Securities and Investments Board, which in effect licensed the individual self-regulating organisations (Vogel, 1996). As in the US, all this was accompanied by a great deal of legal codification, an altogether alien development in a country famed for its “uncodified” constitution – or would the latter be an exaggerated claim?<sup>924</sup>

What followed after the passage of the 1986 Financial Services Act was more than a decade of instability in financial regulation and internal struggles within the industry. All this culminated in the changes associated with Financial Services and Markets Act of 2000 (Financial Services Authority, 2001). According to this act, the Financial Services Authority is the new power to be, and so it is as some contend it is the most impressively empowered financial services regulator in any leading world financial centre. Worryingly, however, though modelled on American example, the Financial Services Authority’s democratic basis is much narrower than that of the Federal Reserve system; the latter’s authority has long been based on a dispersal of regulatory bodies at both state and federal level.<sup>925</sup> Instead of an historically and nationally embedded banking authority, that developed a precarious balance of private and public responsibilities over several centuries – the Bank of England for all its faults, there now is the largely State-driven, yet tradition-less FSA. The FSA has adopted US norms of efficiency and the protection of classless consumers as its objectives, rather than respect for English traditions that promote social mobility and the republican ideal of non-domination starting from an assumption of classes. The same can be said of other new “Council of Wise” regulatory agencies in the UK such as OFCOM and OFTEL; the introduction of these agencies has led to an ever greater State and normative focus on Londonisation and classless consumer dynamics. Clearly, this has had the effect of stimulating innovation. Unavoidably, however, the existence of significant social class differences and large regional income inequalities, combined with the agencies’ lack of embeddedness in class

and local realities, has tended to limit the latter's democratisation aims to a "low value added" road: namely, the lowest common denominators of less product regulation and more cost competition.

*e) Confusion of varieties of pluralism*

The introduction of US-style Council of Wise innovations would not have been possible without adopting its complement, the US tradition of pluralism, as a way to bypass the old vehicles of the homegrown tradition of neutrality – in particular the civil service and Bank of England. Although both the US and Britain share a "plurality" electoral system, Thatcher's coalition of political, civic and business supporters did not seem to realise to what the extent the nature of pluralism in the US and England has been and remains different. In the US, the historical coincidence of evangelical religious ideas with the idea of an expanding frontier, an empire of liberty, has been much more meaningful than in the UK. This has resulted in a US tradition of pluralism that maintains the administrative and organisational inferiority of the State to the democratic capacities of the « marketplace of ideas ». Beyond the appearance of administrative weakness and fragmentation, however, the US State has actually always been normatively strong, exerting great pressure on a plurality of private actors to abide by its grand rules of the game (Dobbin and Sutton, 1998).<sup>926</sup> In sum, the strength of the US State tradition domestically is its application of a normative personality principle.<sup>927</sup> This contrasts with the more administratively centralised, « neutral » Anglican State tradition<sup>928</sup>, mother of all territorial and fiscal centralisation traditions in Europe – compared to the the French State tradition which shares the "self-contained normative order" aspect with the US, and the administrative centralisation aspect with the English (cf. Laborde, 2000).

The radical nature of the US tradition of pluralism throughout the centuries has been energised time and again by its immigrant nature. As members of a "nation of immigrants", incumbents and newcomers have sought refuge in a commitment to their native religion as a way to "display their commitment to American values while maintaining their ethnic distinctiveness", independent from State interference (Bruce, 1996: 135).<sup>929</sup> England, by contrast, has never been a nation of immigrants, as acknowledged by Thatcher and her Conservative predecessors (Layton-Henry, 1994). Instead of religious resilience, pluralism in England has been linked with class resilience, independence-craving trade unions and employer organisations. And rather than a fragmented State apparatus, the geopolitical and domestic strength of England has long depended on a centralised Anglican State apparatus and a – since 1919 – unified and culturally homogenous civil service that cherishes "neutrality" as a way to deal with England's particular brand of pluralism.

In contrast with the tradition of neutrality, which is based on intermediary institutions monitoring gradual changes amenable to the integration of classes, US pluralism is premised on what Thatcher called the "dispersal of power away from the center to a multitude of smaller groups and individuals", in particular a shift away from power "in the hands of the state at the centre". Oblivious of the pivotal role of the tradition of neutrality, Thatcher's coalition promoted all aspects of US pluralism: a minimal State, the pursuit of privatisation, and the need to let local communities take responsibility for themselves (Finlayson, 1994: 366).

*f) Inequality, social mobility, pathology of interest groups, and inflation*

In sum, by substituting rather unreconstructed US-traditions for homegrown traditions, in the name of an end to national decline and the undesirability of class notions

– an impossible notion in any nation-state least of all England, Thatcher’s government further weakened and sidelined longstanding English vehicles of rivalry and settlement. In doing this, her government sped up an evolution that was long underway, but about which most cabinet ministers seemed somewhat in denial: the further breakdown of homegrown roots of contestability and mobility – and only viable basis of democratic governance. In particular, Thatcherites preferred to keep legitimising the existence of a British world-state on the basis of an immediately available neo-imperial alternative for the Commonwealth – the Anglosphere, with one centre in London and another in New York. That is, rather than based on long-term investments in grassroots capacities to foster prosperity, civic virtues, social mobility and political participation in England. Devolution and the fostering of a grassroot national identity was well underway in Scotland, but not in England, which once again for “*raisons d’etat*” was denied a modern national identity. Thus, it is the latter nation – and its small neighbour Wales – that came to feel the brunt of Thatcher’s errors. While she targeted the expansion of the middling sorts through her shareholder nation and property-ownership schemes, she produced a very polarised England with less social mobility than in the decades before, as demonstrated by several comparative figures. Not only do national comparisons indicate that intergenerational mobility has markedly declined since the 1980s; international comparisons point out that Britain has become less mobile than most Northern European countries, including the Netherlands and Germany (Blanden et al., 2004).

**Table 11.1 Regional GDP/Person (Britain = 100)**

	<b>1954/5</b>	<b>1971</b>	<b>1981</b>	<b>1991</b>	<b>2001</b>
<b>South East</b>	112.7	112.7	115.5	118.9	126.1
<b>London</b>	137.6	123.4	126.0	129.4	133.9
<b>Rest of South East</b>	97.9	104.6	108.4	109.5	119.0
<b>East Anglia</b>	83.5	92.8	94.7	108.9	109.1
<b>South West</b>	86.4	93.9	91.8	92.4	88.4
<b>West Midlands</b>	107.9	101.9	89.1	91.3	89.7
<b>East Midlands</b>	101.6	95.7	95.6	94.4	91.0
<b>North West</b>	97.8	95.3	92.9	90.2	89.3
<b>Yorks &amp; Humberside</b>	98.4	92.5	90.2	89.5	85.5
<b>North</b>	88.0	86.1	92.2	83.1	75.6
<b>Wales</b>	82.0	87.5	82.0	82.8	78.2
<b>Scotland</b>	88.1	92.2	94.8	98.9	93.7

*Source:* for 1954/5, *Annual Report of the Commissioners of the Inland Revenue*, Cd. 341 (1958), for 1971 and 1981, *Regional Trends* and for 1991 and 2001, Cope et al. (2003).

Telling comparative figures notwithstanding, New Labour did not contest the Thatcherite consensus, but rather built on it. Its main purpose, as Thatcher's, is to make the English population fit for global capitalism (Crouch, 1999: 70). So it should not come as a surprise that nothing much has changed since 1997. Instead, since 1979, all through the 1980s, 1990s and 2000s, it is the UK – in particular England and Wales – that has experienced the most severe inequality upswing of all “developed” countries (Blanden et al, 2004; Sawhill and Morton, 2007; Freeman and Katz, 1995: 13). Especially given that income inequality in the UK has been exacerbated by three factors: its sharply delineated regional nature (see table 11.1), a very pronounced polarisation or “decline of the middle” in the income distribution, and the shift from one type of interest group “pathology” to another. Different from most developed countries, polarisation in the UK was driven mainly by “downgrading” – defined as the movement of households into the lower tail of the income distribution, rather than by “upgrading” – as was the case in the US (Nielsen et al., 2005: 14).<sup>930</sup> In other words, the opposite of Thatcher's US-style middle class nation has been achieved.

Finally, to get rid of the pathology of British interest group politics – a series of failures to address class politics and mimick tripartite national consensus mechanisms operative in the European Union, access points to policy for interest groups were drastically reduced. Instead, companies started negotiating on a private, one-to-one basis with Whitehall cabinet ministers, or moved their lobbying efforts to the supra-national level (Grant, 2007). One benefit of the drastic curtailing of trade union access and financing has been to reduce unemployment to US-style levels; it removed a certain number of institutional rigidities, in particular the old link between unemployment and inflation. Whereas in the past a prolonged fall in unemployment led to inflationary pressures and contraction, inflation did not materialise after the early 1990s crisis, and the economy continued to expand. Some argue that because the unions did not have the power anymore to push for wage rises when unemployment was falling, the low-inflation credentials of the monetary policy regime were reinforced. And this helped sustain the fall of unemployment (Pissarides, 2003).

As argued above, less positive is that this fall in unemployment has been achieved through the regulatory and ideological pre-emption of domestic contestability and rivalry, in the name of a geopolitically pioneering model of globalisation (Hirst and Thompson, 2000). The end result of Thatcher's settlement was not only the end of the post-WWII status quo and the rise of the City as a harbinger of casino capitalism (Strange, 1986), but also the abandoning of a qualitatively superior English industrial model in favour of a focus on cost-reduction and low-added value creation (Delbridge et al., 2006). While obviously not devoid of merits, the lack of investment in mechanisms of contestability and mobility that has characterised the Thatcherite and New Labour consensus of national globalisation undoubtedly has damaged the country's democratic resilience and increased its geopolitical dependence on the strength of one foreign nation-state, the US, to a worrying extent.

### **11.3.2 Formal evolution of the suffrage**

As in most other Western countries, after 1948, the most interesting and innovative democratisation dynamics in England took place outside of the formal suffrage framework. Of course, the age of electoral adulthood was lowered from 21 to 18 in 1969. But this was a mere reflection of the greater influence of consumerist movements,

themselves a reflection of the increasing pervasiveness of Americanisation influences – in particular traditions of middle class egalitarianism and individualism, as opposed to more rite-of-passage oriented English traditions.<sup>931</sup>

Still, there was one important formal change, which was more important in terms of what it did not do than what it did: the abolition of the business vote in 1969 with the exception of the City of London. More than anything, this symbolised the Labour government's commitment to neo-imperial aspirations, in particular the belief that the City of London was the key to Britain's greatness; and that its business autonomy should be preserved at all costs – even that of an entirely skewed balance of power in England. Labour's exemption of the City in 1969 followed a long line of precedents. The City of London Corporation was not reformed by the Municipal Corporations Act 1835, nor by subsequent legislation, and with time has become increasingly anomalous. That is, in spite of the demographic undermining of the basis of these exemptions. The historical basis of exemption – ever since the late Middle Ages – has been the City's role as guardian and voice of the English citizenry's traditions and liberties. Yet, non-residential voters were gradually outnumbering residential voters. While the City in 1801 had a population of about 130,000, increasing development of the City as a central business district led to this falling to below 5,000 after the Second World War.<sup>932</sup> By 1969, the non-residential – business – vote had completely eclipsed the residential part of the City electorate. Rather than turn this around, New Labour in 2002 allowed for a substantial increase of the business franchise – before the 2002 City of London (Ward Elections) Act incorporated companies were disfavoured electorally. The majority force in the City electorate now is foreign capital. In fact, the last occasion when overseas interests and traditions were deliberately accorded so reasonable a role in the affairs of the City was in the late thirteenth century, when King Edward I kept the city under direct rule for a dozen years, so as to ensure that foreign merchants could pursue their business to his advantage (Keene, 2004).

Beyond the City, a particularly troubling outcome of the electoral suffrage in recent decades has been the decrease in turnout. While the turnout in the 1950 British general election stood at 83.6 per cent, it had declined by more than 24 percentage points by the 2001 general election. The 2001 figure (59.4 per cent) and that for 2005 (61.3 per cent) were the two lowest returns since the 58.9 per cent in the war-time election of 1918 (Bennett, 2005). In just over fifty years, the United Kingdom moved from being an impressive illustration of how turnout can remain high when voluntary voting is used, to producing calls for the introduction of compulsory voting (Blackburn, 1995: 109-112).<sup>933</sup>

### **11.3.3 Firms' strategies of democratisation**

In Tables 11.2 and 11.3, I provide comparative growth and marketshare figures (in terms of both deposits and total assets) for building societies and banks over the period 1966 to 2006. The Co-operative Banking Department joined the rank of PLC's in 1972<sup>934</sup>, and the TSBs followed suit a decade later – ending up merging with Lloyds in 1995.<sup>935</sup> Given their loss of mutual status, it did not make sense to include Co-operative and Trustee Savings Banks as separate varieties of financial institutions anymore in the growth figures. No mention is made of National Savings either, as this financial vehicle was rapidly marginalized from 1966 onwards (Coles, 1986: 18).

In the subsequent sections, I expound how the particular strategies of democratisation followed by banks and building societies – their particular deployment

and combination of the four logics of democratisation – underlay their differential growth patterns during the last forty years. Finally, I provide a ranking of the variety of financial institutions for the period 1900 to 1930 in table 11.4, based on the respective financial institutions’ effectiveness in terms of each strategy. The data are listed in two series, one up to 1988, the year before the first round of demutualisations of building societies, and another from 1988 onwards – including the two demutualisation rounds in 1989 and 1997.

**Table 11.2: Growth and proportional shares of building societies versus banks**  
in terms of total assets

<i>Year</i>	<i>Building Societies</i>	<i>Major UK Banks*</i>
1976	28,202	56,228
1978	39,538	72,326
1980	53,793	102,385
1982	73,033	171,418
1984	102,689	214,794
1986	140,603	279,200
1988	188,844	338,066
<b>Growth x</b>	<b>6.69</b>	<b>6.01</b>
<b>Share %</b>	<b>36</b>	<b>64</b>
1988	188,844	338,066
1990	216,848	414,144
1992	262,515	517,924
1994	301,010	572,250
1996	318,392	817,142
1998	156,014	1,155,126
2000	177,747	1,404,532
2002	184,453	1,816,715
2004	236,146	2,176,289
<b>Growth x</b>	<b>1.25</b>	<b>6.43</b>
<b>Share %</b>	<b>9.78</b>	<b>90.22</b>

Sources : Blair, 1997, Broadberry, 2006; Co-operative Bank Archives; Sheppard, 1971; Gosden, 1996; UK Central Statistical Office (Abstract of Banking Statistics, various years); Building Societies Yearbook 2007/08.

\*in April 1991, the Major British Banking Group (MBBG) was formed, combining Abbey National Group with the former Committee of London and Scottish bankers (which included the Standard Chartered Group), formed in 1985 to replace the Committee of London Clearing Bankers (CLCB).

\*\* Trustee Savings Banks ceased from being part of National Savings after 1979 and became a banking company owned by shareholders from 1986 as TSB Group PLC Limited. In 1995, TSB Group and Lloyds Bank merged to form Lloyds TSB Group PLC.

**Table 11.3: Growth and comparative market share of building societies versus banks**  
in terms of deposits/shares

<i>Year</i>	<i>Building Societies</i>	<i>Major UK Banks*</i>
1972	14,369	13,972
1974	18,524	37,254
1976	26,271	24,689
1978	37,022	29,773
1980	49,950	41,457
1982	67,661	58,968
1984	91,442	70,260
1986	116,998	105,213
1988	150,778	143,758
<b>Growth x</b>	<b>10.5</b>	<b>10.3</b>
<b>Share %</b>	<b>51</b>	<b>49</b>
1988	150,778	143,758
1990	160,842	191,246
1992	190,451	235,544
1994	210,423	253,176
1996	212,825	322,347
1998	109,863	466,710
2000	112,184	546,043
2002	138,741	630,829
2004	160,456	741,279
<b>Growth x</b>	<b>1.06</b>	<b>5.16</b>
<b>Share %</b>	<b>18</b>	<b>82</b>

Sources : Blair, 1997, Broadberry, 2006 ; Co-operative Bank Archives; Sheppard, 1971; Gosden. 1996; Trustee Savings Banks' Yearbook 1981 ; Robbie, 1992 ; UK Central Statistical Office (various years)

\* *Figures for London Clearing Banks up to 1980 ; figures for MBBG from 1980 onwards; all figures include Co-operative Bank deposits ; figures from 1988 include Abbey National deposits (converted from a building society to a bank in 1988)*

**Table 11.4: Comparative ranking of commercial banks and building societies per strategy of democratisation for the period 1966 to 2007**

(1=highest, 2=lowest)

		<b>Commercial banks</b>	<b>Building Societies</b>
<b>Strategy a</b>	<i>Before 1989</i>	1	1
	<i>After 1989</i>	1	2
<b>Strategy b</b>	<i>Before 1989</i>	2	1
	<i>After 1989</i>	1	2
<b>Strategy c</b>	<i>Before 1989</i>	2	1
	<i>After 1989</i>	1	2
<b>Strategy d</b>	<i>Before 1989</i>	1	1
	<i>After 1989</i>	1	2
<b>Strategy e</b>	<i>Before 1989</i>	2	1
	<i>After 1989</i>	1	2
<b>Strategy f</b>	<i>Before 1989</i>	2	1
	<i>After 1989</i>	1	2

**Strategy a Help core customers fulfil their social class aspirations.**

*i) Commercial Banks*

In many ways, the main vehicles of minority democratisation in London since the 1970s, and increasingly so from the 1980s onwards have been foreign banks, in particular North American consumer and corporate banking entities such as Citibank. These banks were much more adept at creating and exploiting new opportunities to accumulate wealth and status in London for foreigners and Englishmen alike: in particular Euro-money, Euro-Bond, securities and wholesale banking opportunities. The Big Four clearing banks tried to adapt and compete with these foreign entities, with at best mixed success during most of the period 1970-2006. They started to diversify in new lines of international business – the recycling of OPEC surpluses – in the early 1970s, and stepped up their efforts in the 1980s to prepare for the impending « Big Bang ». All Big Four clearing banks endeavoured to become formidable competitors in both the mortgage and investment banking markets. After the Mexican debt crisis in 1982, the clearing banks decided to focus more on domestic activities in an effort to stop the erosion of their marketshare in domestic deposits by building societies, merchant banks and other financial institutions. Clearing banks came up with several innovations: they introduced interest-bearing accounts, “free banking” and a much greater variety of savings accounts (Mullineux, 1987: 12-19). Fast becoming universal banks, the clearing banks in particular targeted the building societies. Initially, they had limited themselves to granting “bridging loans”, i.e. loans to allow the purchase of a new house before sale of one’s present house is completed. In the 1980s, however, they more decisively entered the mortgage market, rapidly sending many building societies ‘down market’ in their own lending. By 1985, the relative newcomers in the mortgage market – principally the clearing banks and the TSB – had captured 10 percent of all mortgage balances outstanding.<sup>936</sup> This percentage would

go up rapidly in the 1990s, especially after the demutualisation of several major building societies – who joined the ranks of commercial banks after two rounds of demutualisation in 1989 and 1997 (see table 11.6).

**Table 11.6: Numbers of mortgage advances per year in the UK** (in thousands)

(Source: Wilcox, 1999: table 38; Wilcox, 2001: table 39)

	1983	1986	1989	1992	1996	1997	2001	2003
<b>Building societies</b>	950	1,231	867	531	589	396	225	197
<b>Banks</b>	179	246	300	327	431	674	963	967

The record of clearing banks in international investment banking would prove to be more troublesome. Barclays and Lloyds had long been the most internationally committed members of the Big Four. It was not until the early 1970s that, faced with diminishing returns at home, these two banks consolidated most of their foreign interests. Unfortunately, compared with US banks who led the way in the development of Euromarkets, neither the clearing banks, with their legacy of retail banking, nor their overseas affiliates, skilled in exchange and trade finance, were well-equipped to develop competing lending products. English banks' legacy of specialised, highly demarcated organisational boundaries, meant that when they became more "universal" in organisational scope, management often could neither coordinate the different product categories, nor decide which market – retail, corporate or wholesale – to focus on (Jones, 1993: 58-59). Witnessing Barclays and Lloyds suffering heavy Third World losses, and proceed with reorganisation at an agonisingly slow pace, emboldened the two clearing banks with a much lesser international legacy, National Westminster and Midland Bank.<sup>957</sup> Both banks tried to surpass Barclays' international expansion in the 1980s with ambitious diversification and acquisition attempts. The Midland Bank had long avoided foreign direct investment in favour of a correspondent strategy. But it had been reassessing its strategy as early as the late 1960s, when the decision by all the clearing banks to disclose their inner reserves had revealed that it was the most undercapitalised of the clearing banks, and that its profitability was much weaker than its competitors (cf. Holmes and Green, 1986: 244-255). And in 1974 a review of the banks' international strategy demonstrated Midland's inordinate dependence on the UK, most notably England, for its profits compared to the other clearing banks. Not entirely surprising, the Midland Bank chairman was one of the first to criticise the clearing bank cartel. Looking for a way out, the bank's Board decided to try and raise the contribution of international business to profits. From 1979 onwards, Midland Bank engaged in a series of foreign acquisitions, culminating in an agreement to acquire 51 percent of Crocker National, one of California's largest banks. By a stroke of the pen, Midland Bank had become the tenth largest banking organisation in the world.

Similarly, National Westminster Bank, which had long focused on domestic retail banking, purchased a large North American bank on the East Coast in the early 1980s.

Initially, National Westminster's forays appeared impressive. Nat West's merchant bank operation, County Bank went on an acquisition spree, acquiring various stockbroking and jobbing firms to create NatWest Investment Bank. The bank also expanded internationally, forming NatWest Bancorp in the United States, and opening branches in Europe and the Far East. By the early 1980s, NatWest had passed Barclays to become the UK's largest bank by asset size. Furthermore, its overall outlook was better, as it had less exposure to Third World debts than the other clearing banks. Thus, in 1987 National Westminster became the first UK bank in history to report profits of over £1 billion.

By the late 1980s, however, perceptions had changed dramatically. Ultimately, the 1980s proved to be the worst financial decade in the Midland Bank's history – in particular the investment in Crocker National resulted in heavy losses. National Westminster was involved in a major financial scandal that led to the resignation of its chairman and three other directors. By 1990, National Westminster had reversed to the status of being the UK's second largest bank by asset size, behind Barclays (Jones, 1993: 333-334). Later the company would shed its investment banking arm, to refocus on the domestic market under the rebranded name NatWest. Royal Bank of Scotland, a much smaller bank, would ultimately end up acquiring NatWest.<sup>938</sup> The Midland Bank, for its part, as soon as 1992 had been acquired by the Hongkong and Shanghai Banking Corporation – which eventually became HSBC Holdings PLC.<sup>939</sup>

Barclays had not anticipated all this. Having suffered a psychological blow in falling behind National Westminster, the bank from 1986 onwards took rather drastic measures to regain the lead. Barclays' modest merchant banking arm was merged with the brokers de Zoete & Bevan and the stock jobbers Wedd Durlacher. In 1986, the resulting investment bank BZW was created as an autonomously managed division.<sup>940</sup> The division made a loss in 1987, and would not make substantial profits in its 11 year long life – when it was finally divested. Also, for the first time in the last few centuries, Barclays appointed a non-family member to the chairman position, Sir John Quinton. Quinton invested £900m in balance sheet expansion, and allowed his managers to lend to homebuyers and property developers with little restraint during the housing boom of 1988-9. By default of a clear management structure, risky lending operations went on till the property market crashed and Barclays endured heavy losses (Vander Weyer, 2000). After a series of corruption scandals in the 1990s, Barclays in 1997 decided to get out of investment banking and follow the retail banking path that Lloyds had chosen a few years before, after its 1995 merger with the TSB Bank<sup>941</sup> (Auger, 2000: 46-47; 114-115; 257).

From the late 1990s onwards, clearing banks managed to find a good balance between stability and profitability in their portfolio, by virtue of their renewed focus on retail banking. Changes in financial markets also helped enormously. While clearing banks had given up trying to compete with Wall Street for the lucrative business of helping companies sell shares and advising them on takeovers, banks such as Barclays and RBS had kept the bits of their investment banks that dealt with bonds, loans and foreign-exchange trading. Located in the City of London, the latter were well-placed to benefit from a plunge in interest rates across the world after 2001. The clearing banks eagerly catered to a demand for new international products: those that allowed lenders and borrowers to slice and repackage risks relating to interest rates, currency movements and loan defaults.<sup>942</sup> This included repackaging the infamous sub-prime mortgages that triggered a financial crisis in 2008. Up to now, the backlash of this crisis has not impacted on UK clearing

banks disproportionately, although some sophisticated accounting tools might have kept the worst consequences temporarily undisclosed.

In sum, it took a long time before old-school institutions such as Barclays and Lloyds overcame the breakdown of their old Anglican voluntarism by US banks wielding a new protestant work ethic – real Whig voluntarism. A series of fiascos followed, that did not testify at all to a capacity to increase social mobility or build profitable new modes of self-restraint – based on the principles of anti-waste and anti-usury. After the Mexican debt crisis in the 1970s, there were the investment banking fiasco's of the 1980s and 1990s, followed by the mortgage crisis of the 2000s; all of which were the result of over eagerness and lack of self-restraint. Only since their comprehensive return to retail banking in the late 1990s did the clearing banks regain the semblance of a modern embodiment of the tradition of Anglican voluntarism – i.e. the principle that voluntary self-restraint should be at the heart of the social class system and the English model of sound finance. By and large, however, clearing banks have played a negative role regarding issues of social mobility in England.

What was the contribution of the Co-operative Bank<sup>943</sup> in social mobility issues and the re-emergence of a new model of sound finance? It was not significant, for two reasons. First, the Co-operative Bank has become a very classical bank both in terms of targeted social classes and offered products. The Co-op targets the better-off social classes, as demonstrated by its pioneering of a free banking scheme in 1974 - and later the pioneering acceptance of Visa credit cards. Four minor aspects set the Co-op apart from mainstream banks: its willingness to accept low profitability levels, its very small branch network, its focus on the North of England, and its purportedly more ethical stance. But all this has not made a significant impact on UK banking for the simple reason that the Co-op's marketshare has remained very low, ranging between 2-3 % in the UK retail banking market and amounting to near to 0% in wholesale banking – albeit the bank does cater to a significant amount of local authorities.

ii) *Building Societies*

In many ways commercial banks still performed better than building societies, at least from the later 1980s onwards. The latter champions of Anglican voluntarism found themselves ill-prepared for the siege of “carpetbaggers” that befell them. Before that period, during the 1970s and earlier 1980s, the building societies had done excessively well. The 1970s had been a learning decade for the building societies, insofar as they had to learn how to deal with consecutive housing booms in 1971-1974 and 1977-1979. During the 1960s, house prices had remained fairly stable, as had building societies' attractiveness. But when interest rates fell dramatically in 1970, this changed rapidly: while building societies' share rates became increasingly attractive, house prices rose by an annual average of 43 per cent during the decade. By the end of the first boom, building societies' net lending had doubled (Nellis and Longbottom, 1981: 10). Somewhat worrisome, building society lending had substantially increased effective demand and fuelled house-price inflation, which left them open to accusations of a lack of self-restraint. In response, some societies started promoting term shares – a product that encourages the intake of money on a longer-term basis in exchange for yielding a one to one and a half percent over the ordinary share rate. Term shares had been reluctantly introduced in the 1960s by a few societies. From 1974, when building societies were experiencing an acute shortage of funds, they were taken up more enthusiastically and seriously – promoting them with a higher differential than common during the 1960s. By the end of the 1970s,

the amount held in term shares by the 17 largest building societies was 13.43 per cent of total shares. And it were the social classes with the highest aspirations that principally joined building societies' product portfolio schemes (see table 11.7).

**Table 11.7: Building Society shares/deposit accounts per socio-economic group (end 1970s)**

(Source: Gough and Taylor, 1979: 26)

<b>Socio-economic group</b>	<b>% Holding Building Society Shares or Deposit Accounts</b>
AB	40.8
C1	29.8
C2	19.9
DE	12.0

Building societies profited maximally from clearing banks' refocusing on international banking services during the 1970s. While banks cut back their number of branches, building societies' growth during the seventies came through an expansion of branch networks in key retail areas. In the period 1972-1982 the number of building society branches grew from 2522 to 6479 (Howcroft and Lavis, 1986: 91), while that of clearing banks declined by almost 1,000 in the period 1968-1979 (Boleat, 1981).<sup>944</sup>

All in all, before the late 1980s, building societies were able to make a highly innovative contribution to the fulfilment of social classes' aspirations. Building societies tempered short-term speculation mechanisms, and provided an economically attractive, long-term combination of saving and credit mechanisms which married the needs of homebuyers for low-cost loans with those of investors in search of a low-risk form of saving (Cook et al., 2001). In other words, building societies fulfilled the two conditions necessary to raise social classes' aspirations. They provided attractive opportunities to increase monetary wealth to the up-and-coming social classes. And since these opportunities were predicated on voluntary self-restraint, namely a willingness to trade longer term investments for short-term speculation or wastefulness, they could not be stigmatised as crude profiteering, but actually increased social status. In sum, building societies were an effective vehicle of social mobility. Indeed, before the late 1980s, the typical building society depositor did not at all conform to the sophisticated "utility maximising" investor postulated in economic theory – such as Tobin/Markovitz portfolio theory.

**Table 11.8 Growth in Building Society Investors 1968-86**

(Source: Coles, 1986: 19)

<b>Year</b>	<b>Number of investors (million)</b>	<b>Percentage of Adult Population</b>	<b>Number of shareholders (million)</b>
<b>1968</b>	6.2	15	<b>8.2</b>
<b>1979</b>	18.9	43	<b>27.9</b>
<b>1983</b>	25.2	57	<b>37.7</b>
<b>1986</b>	<b>28.2</b>	<b>64</b>	<b>40.0</b>

But cracks in this paradigm would soon appear during the financial liberalisations of the 1980s. With the disappearance of competitive boundaries, price competition became fiercer, in particular on interest rates for current accounts, deposits and mortgages as well on fees for these products. At the same time non-price competition shifted from branch networks, which were cut down to reduce costs, to diversification into new products such as high yielding accounts and packages of mortgages and insurances (Bailey, 1990). Remarkably, in spite of all this competition, profitability levels in the UK remained higher than in the rest of Western Europe, including in the mortgage market (Low et al., 2003). That was probably due to the disappearance of diversity of organisational forms on the supply side; as well as the vanishing of building societies' tempering influence on short-term price fluctuations and speculation mechanisms – the old mechanisms of sound finance.

What is more, building societies' effectiveness in catering to the twin conditions of increasing monetary wealth and social status fell away during the 1980s and 1990s. Initially, they were able to encroach on the banks' traditional markets, both in the level of deposits they were able to attract and in the number of loans they made, in particular for mortgages. Building societies, however, soon found out they lacked the experience and skills to rely on highly volatile wholesale markets to raise money. In addition, owner-occupiers' behaviour was becoming more speculative with each day – in particular because they were now able to withdraw housing equity without having to move house (Miles, 1992). In sum, during the 1980s and 1990s building societies found it increasingly hard to provide an economically attractive, long-term investment option for those with ambitious social class aspirations. At first, building societies held their own: while banks increased lending for house purchase considerable from the mid-1980s, the building societies by 1987 retained the major share of the home loans market. Furthermore, building societies' share of the entire market of personal sector liquid assets amounted to 53 %, compared to commercial banks' 33% and national savings' 14 %. Yet, as wholesale funds became more profitable than retail deposits, and building societies raised their stakes in the former, they were to learn a lesson the secondary banks and clearing banks had already found out: wholesale funds did not have the stability of retail deposits (Grady and Weale, 1986: 28).<sup>945</sup> Also, the greatly enhanced ability of consumers to engage in speculative lending and mortgaging activities, the volatility of wholesale markets, and demutualisation pressures proved too much for many building societies. Regarding the latter pressure, even societies that did not announce conversion plans were still marred strategically and administratively with public speculation on large distributions of windfalls. At times, they were almost besieged by carpetbaggers – short-term investors whose sole motivation was to press for conversion in order to make a windfall gain from their membership (Blair, 1997).<sup>946</sup>

When considering the track record of those building societies that converted into banks, the verdict is rather unequivocal: few of the large new banks have been able to remain successful without the help of either a parent commercial bank – Abbey National, Alliance & Leicester, Halifax, Woolwich, Cheltenham & Gloucester, Bristol & West – or the government – Northern Rock. Furthermore, this loss of independence has been the result of rather dramatic failures, as with Abbey National's catastrophic venture in corporate banking from 2001-2004 and Northern Rock's over exposure to the recent sub prime mortgage crisis. The remaining, non-converted building societies have fought hard to retain their identity – for instance by offering higher mortgage rates and lower savings

rates than their commercial counterparts. But this has only had the slightest impact on their image, which still is lower oriented in terms of social class than the PLC organisational form. And it had only the slightest influence on customers' speculative behaviour, as well as the new predilection for variable household mortgage rates – which leaves customers' wealth portfolios extremely vulnerable to interest rate changes.

**Strategy b Cater to customers of different social classes.**

*i) Commercial Banks*

Clearing banks faced two distinct problems from the 1970s onwards. In comparative international perspective, they had become less inclusive vehicles of consensus; clearing banks largely missed out on the retail banking revolution launched in Continental European countries such as the Netherlands from the 1950s onwards. And the division between gentlemanly and managerial classes in banks such as Barclays and Lloyds became increasingly dysfunctional in face of US managerial practices quickly superseding British practices as the standard for the international banking establishment – the former being considered less snobbish and more inclusive internationally. Barclays and Lloyds were rather slow to react; but when Barclays in the 1980s fell behind in not only the international, but also domestic ranking of biggest and most profitable banks, its Board made the bold move of appointing the company's first non-family chairmain in modern history: Sir John Quinton. The latter distinguished himself from his predecessors by having a classless reputation – he had no love lost for the tradition of Anglican democracy at all. Totally buying in the North American “happy mediocrity” tradition, Quinton wanted Barclays to become the “McDonald's of banking”, “where you're greeted with a smile and not kept waiting” (Weyer, 2000). To get rid of Barclays' snobbish reputation, he broadcast its brandname amongst as wide as possible social classes by sponsoring the Football League – that other former bastion of gentlemanly virtues turned “classless”.

Lloyds followed a different path. Long known as the Tory bank, Lloyds had traditionally served the most upper-class clientele of all clearing banks – to the south and east of London. It is only after the merger with TSB in 1995, that Lloyds was able to shrug off lingering accusations of snobbism. As a former mutual bank, TSB's image and main clientele was highly complementary. The TSB had more than 20% market share in the Midlands, North of England and Scotland, but only 5-12 per cent in the rest of the country, where most of the wealth of the country was amassed. Also, about half of TSB customers were classified as being in the lower socio-economic groups – blue-collar workers and university students, compared with 25 to 40 per cent in other banks. (Rowe and Pitman, 1985: 14-20).

In terms of gradualism and stability, the merger between Lloyds and TSB also made sense: by giving Lloyds a strong bancassurance capability and a broader customer base, the bank was able to significantly reduce its vulnerability to market swings (Rogers, 1999: 58).

What did not contribute to a greater feeling of inclusion or gradualism was clearing banks' 1980's stampede towards putting shareholders first. Instead, it spawned a countermovement in the early 1990's. Among other parties, small businessmen - who complained of exorbitant loan charges - and the Consumers' Association initiated “a rising storm of complaints”<sup>947</sup> about banks' lack of customer unaccountability. In particular, banks' deceiving presentation of the self – “the Caring Bank”, the “listening bank” – was denounced (Marwick, 1996). What then, explains the relative consensus – or indifference – amongst social classes about the banking industry?

For one, the majority social class supporting the consensus consisted of foreign rather than English shareholders: by 1988, an astonishing 53.3 percent of all banking sector assets in the UK were in foreign hands, compared to for instance 13 percent in the Netherlands (Gardener and Molyneux, 1990: 260, 281). By the year 2000, the former percentage had increased slightly: some 55 percent of all banking assets in the UK were owned by foreign banks. Most foreign banks are not involved in the English deposit-market. But they are disproportionately represented in the credit card business, merchant banking and other wholesale and securities lines of businesses. This disproportionate representation, particularly in London, has made it rather difficult to maintain the centrality of traditions of Anglican democracy and secular Anglicanism in those market areas. Rather, a diversity of foreign traditions prevails, the dominant ones of North American origin. Clearly the English public has only a minority say in all this – particularly as to what fair play means in an age of “globalisation”.

Second, clearing banks finally did catch up with their Continental European counterparts; under pressure from building societies, access to current accounts and cheques was greatly expanded. From 1981 to 1989 the proportion of British adults with a personal account rose considerably from 61% to 80% (Bailey 1990). Of the more than 36 million people in the UK that nowadays hold a current account, the four largest clearing banks account for some 56% of the credit card market and 70% of the current account market.

ii) *Building societies*

Before the 1980s, building societies had provided the best available guarantee to Englishmen of inclusion in the national Commonwealth – be it at the price of an acceptance of merely gradual economic improvement. As self-proclaimed champions of “property-owning democracy” ambitions, they brought tremendous stability to English society and greatly tempered resentment for the propertied upper classes. Building societies promoted the tradition of Anglican democracy in two ways: in terms of representing a hierarchy of ages and wealth/aspirations. First, while almost as many young as old people participated, younger people tended to hold the smaller accounts and older people the larger – about 70 per cent of building society savings were held by the over-55 age groups (Gough and Taylor, 1979: 27).

Second, building societies fostered a customer/member portfolio that, rather than being based on utility-maximisation, constituted a representative cross-section of social classes, which was serviced differentially according to needs/capacities. The traditional building society depositor was the small, personal saver who was attracted by the convenient deposits and withdrawal facilities offered by societies, the variety of savings schemes as well as by the superior returns which building society shares offered compared with, say, clearing bank deposit accounts, the TSBs and national savings. Apart from this small saver social class, higher social classes also participated for their own reason. Prospective house buyers were encouraged to open one or more building society accounts because societies reportedly gave preference to depositors when allocating mortgage funds. Finally, building societies also attracted deposits from the more sophisticated investor, the one whose behaviour could more readily be classified as utility-maximising (Pratt, 1980: 15). Crucially, up to the 1980s, only the latter investors proved sensitive to interest rate changes.

This was all about change in the 1980s, when “nation of shareholder” aspirations trumped the old property-owning vision. A new managerial class took over the

building societies, amidst doubts that their organisations' mutual origins put them at a disadvantage in this new world. After a long period of deliberation, Abbey National in 1989 started the process of building society "demutualisation". From 1995 until 1999 eight societies demutualised, accounting for two thirds of building societies' assets as of 1994. And of the fifteen largest building societies still existing in the year of the Building Societies Act 1986, five became PLC banks, and five others were taken over by PLC banks. Remarkably, the demutualisation of building societies has actually led to a secular decline of their shares in the mortgage and savings markets (McAteer, 1996: 124). The main beneficiaries of building societies' decline have been the commercial banks, who have experienced tremendous growth of their share in the UK retail deposit market – up to 80 % in 2003.

Unfortunately, the bulk of building societies that turned commercial have struggled to both prosper and remain independent. Their lack of experience with London-based institutional investors and the riskier, commercial lines of business meant they were not the real beneficiaries of demutualisation either. Finally, and worryingly, building societies' members were not amongst the principal beneficiaries of demutualisation either. At the end of the day, three rather elitist classes benefited most: building societies' new corporate managers who used conversion to boost their earnings and status, carpetbaggers who profited from windfall gains, and London-based investors. Indeed, by the year 2000, the hype of England as a nation of shareholders waiting to come out was starting to die down, in face of a clear reality: England now counted less shareholders than before the 1980s; wealth simply had become displaced to and concentrated in London-based investors. In sum, instead of a vehicle of consensus-making, demutualisation has proven a costly mistake for many building societies.

### **Strategy c Make State policy on economic citizenship by “fait accompli”**

#### *i) Commercial Banks*

Already troubled by building societies in preceding decades, clearing banks by the 1970s were facing new pressures on their ability to embody a modern version of Anglican voluntarism. Their gentlemanly culture of self-restraint was fast becoming eroded by the new “protestant” work ethic coming from overseas – “Real Whig” voluntarism. Also, when the State from 1979 started promoting the desirability of a classless and individualistic citizenship – « there is no society », clearing banks simply had to invent new types of economic citizenship. Thus, banks abandoned their pre-emptive conditions of financial soundness of the past, and offered “free banking to everyone”. This did not amount to banks embracing a policy of non-discrimination, however, much to the contrary. Banks in effect internalised a responsibility which the State was keen to relinquish: the responsibility for drawing the line between those capable of being free – and able to engage with new concepts of economic citizenship – and those who are not – those incapable of transcending the level of basic needs. Banks introduced harsh excess borrowing fees for those abusing their overdrafts and credit lines – penalties used to subsidise free banking for the wealthier and more competent. By 2004 “excess borrowing fees” represented about one quarter of the income of UK commercial banks – the European average was 10 per cent. In sum, clearing banks have been very adept at creating a type of economic citizenship that appears inclusive, but actually is inequality-inducing in that it places much of the financial brunt on the weaker and struggling.

Remarkably, in a bid to dispel its old-fashioned austerity image, the Co-operative

Bank pioneered the free banking scheme. Starting with its membership to the London Clearing House in 1974, the Co-operative Bank's leadership has made continuing efforts to shed this image and portray the company as a modern, innovative financial services entity. This earned the Co-operative Bank praise from both the Labour Party and the Liberal Party.<sup>948 949</sup> To differentiate itself, the Co-operative has among other things tried to adopt more of an « ethical » banking stance.<sup>950</sup> Clearly, all this has had some effect since the late 1970s: in line with the revival of the Liberal Party, the Co-op bank has attracted more customers from the higher socio-economic groups, especially to its London branch.<sup>951</sup> By the end of the 1980s, after another decade of breaking self-imposed credit and interest rate taboos, the Co-op Bank was finally “shrugging off its proletarian image and the pink politics behind” it. At the end of the day, however, the Co-op Bank has remained a very marginal endeavour, accounting for at best 2-3% of UK retail deposits.<sup>952</sup>

Then again, maybe the Co-op's limited success is due to more established clearing banks making even greater strides forward. In spite of being minority players in the City's wholesale markets, clearing banks have fared comparatively well. According to the Banker, the 18 UK banks in the 2007 Top 1000 of World Banks remain the most profitable country group in the EU, providing an aggregate \$81.5bn in pre-tax profits with a return on capital of 27.3%, well ahead of the EU27 average of 22.7% but behind the US.<sup>953</sup> The voluntary dismantlement of the only mainstream alternative – building societies, and the fact that foreign banks have focused on non-retail lines of businesses, paradoxically has meant that for all the talk of competition, clearing banks have been able to keep retail prices high and see off qualitative competition. Driven by a credit card and speculative housing investment culture which has never caught off in much of continental Europe, UK banks have long been able to rely on comparatively high penalty charges and high profitability rates. That is partly because, while the new Financial Services Authority oversees the risks commercial banks run, it explicitly does not address competition issues. And a voluntary banking code has not fully addressed the problem (Shirreff, 2007).

#### *ii) Building Societies*

From about 1954 to 1980 building societies successfully embodied an innovative concept of economic citizenship, and a modern version of the tradition of Anglican voluntarism. They were greatly helped by a State that treated owner-occupiers with an open-handed generosity denied to other owners of wealth (Rigge and Young, 1981: 41).<sup>954</sup> All this would change from the 1980s onwards. The ascendancy of Thatcher symbolised that home-ownership had become a taken-for-granted vehicle of economic citizenship; the new holy grail was to create a nation of shareholders. In other words, home ownership was still very much a desired outcome, but only within a larger strategic framework of economic democratisation – one that did not privilege those with a “share” in building societies<sup>955</sup> over those with a share in other financial investments. In 1983, steps were taken to phase out fiscal discrimination in favour of home-ownership; the ceiling on which mortgage interest payments were tax exempt was fixed in nominal terms, thus rapidly reducing the tax advantages accruing to mortgagors relative to other investment assets (Banks et al., 2000: 27).

Further compounding building societies' woes, the steady march of monetarist common sense since the 1970s entailed that the government explicitly considered control over the money supply not to be a State responsibility anymore – following monetarist ideology, changes in the money supply – interest rates – could not be blamed for changes in real output – the real economy - anymore. This had two counterproductive consequences

for building societies. Banks were relieved of much responsibility for managing the national money supply. This may have temporarily weakened banks' status in society; by the same token it liberated them from the shackles of the corset, and vastly increased their freedom to target wealthy minorities and engage in crude profiteering. Another consequence of monetarist beliefs taking hold in popular opinion was even more troublesome: building societies' self-appointed role as guardians of a low mortgage rate was rapidly losing its electoral significance. The mortgage rate was now supposed to be at the market clearing level, not below it. In other words, mortgagors should not be protected anymore from fluctuations in market rates Pratt, 1980: 7-8).<sup>956</sup> On the contrary, they should be fully exposed to it. Rapidly losing their special purpose character, building societies from 1979 onwards were facing deregulatory moves towards a competitive level-playing field with banks and secondary mortgage providers<sup>957</sup>; one purpose being to bring mortgage rates to market clearing levels.

By default of a credible alternative to the new monetarist and "nation of shareholders" ideologies sponsored by the government, the building societies' cartel soon foundered – officially in 1983. "Opportunities" were created for building societies to 'demutualise', that is to abandon their traditional 'member-owner' status, float themselves on the Stock Market, and to convert into banks. At the heart of the argument for conversion was the claim that investor-owned status provides a stricter performance focus and clearer lines of accountability and a more efficient solution to the problem of divergence of interests among classes of claimants (Hird,1996). In other words, the move towards demutualisation reflected the replacement of an archaic and decaying business form (the financial mutual) by a more modern and efficient one – the shareholder-owned company. Since 1989, five of the largest building societies (with assets rivalling those of the major banks) have demutualised. As it coincided with the exhaustion of the Conservative governments' privatisation programme<sup>958</sup>, building society demutualisation in the 1990s was heralded as the main mechanism to create a British nation of shareholders. Reality eventually bit back with a vengeance. Indeed, by allocating free shares to their members, demutualisation created a potentially important mechanism for spreading share-ownership across the population and regions. Initially, it seemed to work. By giving free shares to all their saver-members, the building society conversions to PLC status created almost double the existing base of UK shareholders - the flotations of Abbey National in 1989, Halifax and four other societies in 1997, created respectively 4 and 12 million shareholders. However, most of these new "demutualisation" shareholders cashed in all or part of their shareholdings soon after receiving them – this applied to an estimated 50 percent of members in 1997. And most of the shares sold by members in the outer provinces – i.e. not in the region of the South-East, were bought by institutional and corporate shareholders established in the City of London (Martin and Turner, 2000: 230-231).

In sum, by the late 1990s all evidence suggested building society demutualization had not brought England and Britain closer to the US ideal of a shareholder democracy. If anything England and Britain in the 2000s counted less individual shareholders than before the 1980s. Furthermore, local voluntarism – a bulwark of any well-functioning democracy – received a major blow in the process – with ownership of building societies shifting away from localised membership to London.

## **Strategy d Translate State policy on economic citizenship**

### *i) Commercial banks*

English clearing banks were at a disadvantage to foreign banks in their bid to become consensual vehicles of economic citizenship. The latter – including standalone imperial banks such as Standard Chartered and the Hong Kong Shangri Bank Corporation, and even Scottish banks – were seen as newcomers catering to new global markets. They were associated with the new British consensus: the need to embrace globalisation dynamics and renew the nation’s world-state qualities. As these globalisation dynamics were assumed to increase the wealth of everyone in the long run – although increasing inequality and destroying weak industries in the short run – foreign banks could cater unabashedly to this exuberant new creditor economy. Domestic banks, by contrast, had to find a way to profit from the “globalisation” of the nation while elegantly discharging historical domestic responsibilities – product of the old consensus. Ultimately, clearing banks would find a way, largely due to a more permissive competitive and regulatory environment, and at the expense of building societies, those specialised vehicles of English traditions.

During the 1970s and 1980s, clearing banks tried to compete with specialised foreign banks and the standalone banks for a chunk of the opening international wholesale markets. But they were at a double disadvantage here, expertise and location wise. Skill- and organisation-wise, the generalist clearing banks were ill-prepared for the new era of specialised wholesale services, in particular the fact that wholesale money does not have the stability of retail deposits and current accounts. Also, as an increasing amount of former colonies and developing countries were incorporated in the Washington Consensus - and the system of sound finance propagated by the IMF and World Bank – standalone banks with a long presence in these countries were at a distinct advantage to clearing banks. Where the latter did manage to gain an advantage – namely in securing self-regulatory geopolitical agreements such as Basel I and II, and the European Banking Acts – this was mainly at the expense of other domestic institutions.

During the 1980s, the Conservative governments exhibited great ambitions of economic democratisation and citizenship – seemingly as a trade-off for less active political participation and contestation. In order to maintain a perception of willing partners, and secure a chunk of less volatile retail funds, clearing banks allowed for an enormous expansion of the number of current accounts and credit card accounts. Also, banks pushed a plethora of financial services that just a decade before would have been condemned as deceptive, and in some cases extortionate. Obviously, clearing banks’ leadership should have been aware that many customers did not possess the necessary attributes of self-restraint and incumbent wealth to survive the “sky is the limit” credit card and housing speculation culture they helped to usher in. But, as the government kept quiet about the dangers of cheap money, so did banks.

### *ii) Building Societies*

Building societies in many ways had become too comfortable in their role of provider of passive economic democratisation. When during the 1970s and 1980s, the English monetary and banking sphere experienced a shift from the esoteric model of democratic politics – private, elitist and informal, to one run according to the exoteric model – public and formal, building societies found themselves ill-prepared. In particular since, contrary to clearing banks, building societies felt their political responsibilities – such as keeping the mortgage rate low – had been cast upon them by virtue of a fit of

absentmindedness. Also, building societies during the 1960s and 1970s remained sheltered from a dynamic that had long besieged clearing banks' gentlemanly consensus: the shift from the supremacy of "practical experience and wisdom" to "technical economic analysis" (Moran, 1984: 26-27) – including pressures to publicise profit figures.

Building societies suddenly found themselves exposed to consecutive Conservative governments' push for a new consensus: that of a shareholder democracy and an active economic citizenry. As we saw in chapter 8, one of the reasons why building societies were very successful exponents of Anglican democracy and neutrality was that they provided everyone with a rightful place in the Commonwealth by «severely attenuating» the property rights granted to either investor or borrower members (Thompson, 1997). In Thatcher's shareholder democracy, this core competence – providing consensus by restricting property rights – had become a core liability. Another core competence of building societies had been their ability to contribute to the long-term neutrality of monetary flows, in particular those to do with the relation between home-ownership, house prices and the real wealth of English citizens. During the inflationary years of the 1970s, cracks had already appeared in this core competence – building societies as protectors of the real English economy. But with every inflationary peak the government had stepped in to buttress building societies' position – maintaining a mortgage rate inferior to market clearing levels. Once monetarism was adopted as a core political ideology, however, building societies' role in maintaining the "long-run neutrality of money" became obsolete. The latter was now best left to the unfathomable workings of global markets. Building societies' ability to protect the real English economy suffered blow after blow. The financial liberalisations of the 1980s led to enormous fluctuations in house prices (Miles, 1992), and created a worrisome source of instability. In 2004, the Barker Report, commissioned by Deputy Prime Minister John Prescott, found that housing prices had been increasing at more than double the continental European rate for 30 years. Furthermore, since 1980 the UK has experienced a stronger negative relationship between saving and house price inflation than any other European country, with little connection in the period before 1980 (Farlow, 2005: 21). Secured borrowing and equity withdrawal rose rapidly, leading to a sharp fall in the UK household saving ratio during the late 1980s. And UK household sector debt as a proportion of disposable incomes more than doubled during the course of the 1980s (Muellbauer and Lattimore, 1995). Finally, as banks and building societies shifted to a higher proportion of unsecured lending, more private household income became available for life insurance.<sup>959</sup>

Ideological stances certainly did not change with the ascendancy of New Labour; Blairites and Brownites proved to be no more than the regulatory heirs of the Thatcherite consensus. Political acquiescence for demutualisation and its not so rosy aftermath has been overwhelming. Accepting the triumph of managerial objectives, the Labour Party did not provide anti-carpet-bagger regulations, even after the courts annulled a protective two-year rule after legal action brought by Abbey. Not surprisingly, after more than two decades of structural ideological weakness, building societies' role as a consensual vehicle of economic citizenship has been dramatically – and maybe fatally – marginalised. Only now a widespread credit crisis has left the monetarist consensus open to sustained attack, has a return to building societies' historical success model become a real possibility.

## **Strategy e Become a champion of national character**

### **i) Commercial Banks**

None of the English clearing banks succeeded in becoming a national champion in investment banking, although they tried hard. Barclays was one of the latest to get out of investment banking to follow the retail banking path as Lloyds had successfully set out to do (Auger, 2000: 46-47; 114-115; 257). After dismal ventures in investment banking, English clearing banks have returned to normal, settling for a highly profitable, though internationally inconspicuous balance of products and services.

Ironically, instead of homegrown products, London's new city-state champions seem to be the product of a "reverse colonisation" movement. North American investment banks have dominated the City since the 1980s. And the former colonial standalone bank HSBC has come closest to the status of native national champion. In fact, there is a double irony here, given English banks' historical urge to distance themselves from Scottish banking principles. Indeed, the Hongkong and Shanghai Banking Corporation Limited was established in 1865 by the Scotsman Thomas Sutherland<sup>960</sup> to finance the growing trade between China and Europe on the basis of "sound Scottish banking principles".<sup>961</sup> Another new Scottish champion amongst the top five clearing banks in London is the Royal Bank of Scotland - which acquired Natwest. Noteworthy in a more positive sense is how Lloyds, the Tories bank ingrained in the Home Counties, managed to upgrade its British status through a merger with TSB. This merger gave Lloyds a strong presence in the north of England and in Scotland, where the TSB traditionally was strong.<sup>962</sup>

### **ii) Building Societies**

By the 1970s, building societies had effectively replaced industrial companies as the national champions of English real wealth. Amazingly, by 1970 net investment in building societies exceeded real net manufacturing investment – the former stood at £ 1213 million, the latter at £1040 million. And after the crisis of 1973-1974 the gap only widened; private housing investment seemed to have become the only vehicle to fight that most dangerous of enemies of real wealth, namely inflation – not only by keeping pace with, but by actually outstripping it. As a result, by 1976 manufacturing investment amounted to only £365 million, while building society investment totalled a staggering £2448 million. (Pawley, 1978: 128-129).<sup>963</sup>

In terms of their geographical distribution, building societies were unique amongst financial institutions in that they staunchly represented English rather than British national character (see tables 11.9 and 11.10). Most other financial groupings were headquartered in London and operated in the rest of the UK on the basis of a branch network. Building societies, by contrast, more often were headquartered in the Midlands and Yorkshire and Humberside, while having the greatest branch penetration and highest proportion of the adult population with building society savings accounts in the South West. In many ways, building societies were the only archetypical English institutions; they were entirely underrepresented in other parts of Britain – most notably Scotland – and other parts of the UK – Northern Ireland. The TSBs, by contrast, were heaviest represented in Scotland and Northern Ireland, while being notably weak in the West Midlands and the South West.

Unfortunately, during the 1980s building societies' solid roots in English traditions of democratisation transformed from a core asset into a core liability. Building societies found themselves ill-prepared for the new "British dream": to create a «plc nation» of which all inhabitants would be active shareholders. The demise of building

societies as national champions was symbolised by several rounds of demutualisations from 1989 onwards; none of which ensued in the creation of a new national champion.

**Table 11.9: Distribution of Building Society Branches by Region, 1978**

(Source: Boleat, 1981: 7)

Region	No of Branches/ Population	% Adult population with BS Accounts	Population	Population / Branch	% UK average
London & SE	1,513	48	16,834,000	11,126	94
West Midlands	572	45	5,154,000	9,010	76
North West	512	34	6,519,000	12,732	107
South West	486	53	4,729,000	8,805	74
Yorks & Humb	347	51	4,876,000	14,052	118
East Midlands	321	47	3,747,000	11,673	98
North	255	31	3,116,000	12,220	103
East Anglia	145	41	1,827,000	12,600	106
Wales	218	38	2,768,000	12,697	107
UK	4,688	43	55,852,000	11,914	100

**Table 11.10: Regional breakdown of Building Societies in 1989**

(source: McKillop and Ferguson, 1993: 42)

Region	No. of societies	Total assets, £m
<i>London</i>	13	59,839.8
<i>South East</i>	21	4,292.9
<i>South West</i>	9	15,732.5
<i>East Anglia</i>	3	1,325.7
<i>West Midlands</i>	12	15,040.8
<i>East Midlands</i>	13	2,205.2
<i>Yorkshire and Humberside</i>	11	83,069.0
<i>North West</i>	7	1,277.2
<i>North</i>	12	5,392.0
<i>Scotland</i>	3	558.8
<i>Wales</i>	3	878.4
<i>North Ireland</i>	2	169.5

**Strategy f Become a champion of the national economic interest**

i) *Commercial Banks*

While the Bank of England kept cherishing clearing banks as the bulwarks of

monetary stability, reality on the ground was changing fast from the late 1960s onwards. Successive legislative changes – mergers and the CCC – in favour of clearing banks' centrality in London money markets proved to no avail. Euromarkets, foreign banks and building societies were growing too fast for clearing banks to keep up. Some clearing bank leaders such as Stuart Graham of Midland already in 1973 had argued that "the influence of the clearing banks in financial affairs has suffered a serious decline over recent decades, and to a great extent this has been caused by a reluctance on the part of the clearing banks considerably to adapt their role and attitudes to encompass changing circumstances; also, the banks have unhesitatingly co-operated with the monetary authorities to an extent which has become subservient".<sup>964</sup> But of course the Midland Bank was not the leading clearing bank in the UK. Other clearing banks such as Barclays and Lloyds ultimately would follow Graham's advice due to other evolutions.

Thatcher gave up entirely on the old notion of self-restraint based neutrality in favour of US-led concepts of globalisation and the long-term neutrality of money – concepts culminating in the so-called Washington Consensus. The hope was that giving up on old notions of neutrality would lead to a more competitive and pluralist financial system as in the US. As any historian would expect, the City authorities and British government were not able to create from scratch their own version of a strong, autonomous supervisor such as the US SEC; ushering in the demise of British merchant banks and the waste of enormous amounts of money after the Big Bang. It is now recognised that England's regulatory system, while deserving credit for preserving London as a highly competitive international financial centre, has been less helpful in maintaining the competitiveness of English bankers, either domestically or abroad (Jones, 1993: 57).

Contrary to merchant banks, all was not lost for clearing banks, however. As other big businesses, these had anticipated the individualisation of interest group politics under Thatcher, by diversifying abroad and building international lobbying strengths – be it at the European Community level, or regarding Euromarkets and the Basel agreements. By behaving more like any other big business, clearing banks unavoidably lost some of their centrality in society. In many ways, the distinctiveness of the English banking profession was in danger at some point – as illustrated by the struggle for survival of the Chartered Institute of Bankers (Quack et al, 1995). Of course, to some extent the same can be said of foreign banking institutes (Glover, 1994). Yet, given the remarkable historical strength and distinctiveness of English banking practices, it still is noteworthy how clearing banks have succumbed to successive waves of US-led marketing and accounting fashions (Seal and Croft, 1997) – testifying to their incapacity to reinvent a homegrown tradition of professional neutrality.

ii) *Building societies*

Building societies arguably were at their zenith as vehicles of the tradition of neutrality from the late 1960s onwards – symbolised by the BSA's success in having its members exempted from the 1966 Capital Gains Tax while keeping other tax privileges. As self-appointed representatives of the public housing interest – with their low mortgage rate and non-profit objectives, building societies were largely left to their own bearings by the government and Bank of England. The Building Societies' Association met with the Bank of England on a very sporadic, informal basis; contrary to clearing banks who suffered from the increasingly stifling initiatives of the Bank of England. An apparent contributing factor to building societies' success was the hands-off nature of the BSA in industrial relations terms. The Building Societies' Association never was an employers'

association comparable to the Engineering Employers' Federation. It merely served as a forum for the Societies to discuss common problems and most importantly to concert action on interest rates. This pre-empted government demands for a social pact, as with the formal employers' organisations. But when the BSA did provide general advice to member societies, the latter listened closely. For instance, confronted with the Industrial Relations Act of 1971, the Council of the BSA recommended a policy of neutrality as to the latent conflicts between government and trade unions. The Council advised societies to allow for a formal representation of staff opinion, as a way to pre-empt outside interference by established trade union. And so did building societies, with great success (Swabe and Price, 1983: 15-16).<sup>965</sup> They appeared an oasis of tranquility during the 1970s' winters of discontent; even in comparison with clearing banks. Clearing banks faced a gathering "cold war" between employers who were entrenched in a snobbish Toryism and employees eager to see some change (Marwick, 1996: 150-153; 158-166). Building societies, by contrast, lived in a relatively self-contained industry with an apparently insatiable market for mortgages; they were able to perpetuate their employment practices of benevolent paternalism sheltered from outside criticisms.

The societies had already come under attack from clearing banks and political organisations during the early 1970s, regarding the societies' purported role in fuelling house-price inflation and the rise of interest rates. Clearing banks argued that the BSA should come under supervision of the Bank of England. To fend off calls for more direct government intervention, the BSA agreed with the Department of the Environment to the establishment of a Joint Advisory Committee. As the blame for chaos in the housing market initially was being laid with the societies, the BSA wholeheartedly subscribed to the Committee's recommendations; most notably to support the growth of owner occupation and stabilise the housing market and house prices. This earned them the necessary government support throughout the 1970s, including during the severe 1978 inflationary crisis.

But building societies' fortune was about to change. Clearing banks became increasingly bold with their accusations of a lack of "competitive neutrality" (Llwellyn, 1986) – the Committee of London Clearing Banks complained that building banks enjoyed unfair and artificial competitive advantages (Committee of London Clearing Banks, 1978: 189). Under the Conservative governments of the 1980s all prior criticisms gained momentum and proved impossible to fend off any longer. During the 1970s the BSA – in its capacity of promoter of gradual home-ownership – had embodied the best possible compromise between special interests and the national economic interest. This was no longer true in Thatcher's era of speculative shareholder wealth; housing soon lost its quality of being a fiscally privileged investment option. All in all, Thatcher's moves would prove highly paradoxical. In spite of the phasing out of mortgage tax deductibility, England and later Scotland experienced a dramatic surge in home-ownership, pushing the country from a legacy of relative tenure neutrality to one of tenure-specialisation – home-ownership.<sup>966</sup> And despite massive programmes of privatisation and demutualization, England did not become a nation of shareholders. Finally, the country on which England has modelled itself since Thatcher, the US, has experienced the exact opposite causes and effects. While firmly part of a nation of shareholders, US households have received full tax deductibility on all mortgage interest payments during the period. The end result is a much better balance between stock and home ownership in the US than in the UK – where home ownership has become a national obsession pervading all ages and classes, in particular of

white people (Banks et al., 2000: 45). In sum, Thatcher's attempts to mimick the US tradition of pluralism not only ushered in the demise of home-grown neutrality, but also of home-grown pluralism – be it regarding the co-existence of PLCs and mutuals, or in terms of varieties of tenure.

Also problematic for building societies is that the 1980s were characterised by an individualisation of interest group politics. Contrary to clearing banks who had long been geopolitically active, building societies' purely national and even provincial nature precluded such anticipatory moves – building societies were prohibited by law to engage in overseas activities. As a result, building societies remained strangely out of touch with for instance changes in EC competitive standards in the 1970s – anticipating the standardisation of UK competition laws regarding the acceptability of cartel practices (Freyer, 1992). Finally, building societies found themselves besieged equally by the new Conservatives and Old Labour, leaving them without political buffer – by default of a strong Liberal Party. The Conservative Bow Group in 1980 had advised building societies to change to company status. The Bow Group blamed the lack of a “clear objective” in building society legislation for the societies' “many inefficiencies” (see also Gough and Taylor, 1979: 53). There had been strong Labour Party protests against these recommendations. Yet, in 1981, the BSA itself established a working group to review the societies' constitution and powers and the law governing them. The working group's arguments – summarised in the 1983 Spalding Report found a receptive hearing in conservative government circles, especially regarding the possibility of conversion from mutual to company status, and the abolition of the cartel. Ultimately, these recommendations would be translated in the 1986 Building Societies Act.

While Labour protested against announced changes, left-wing Labour politicians themselves had long argued that the special advantages of building societies were not in the public interest. These criticisms had gained strength in the 1960s, as building societies were rapidly transforming in mainstream investment vehicles. They were accused of not lowering their liquidity ratio for the sake of extending more mortgages. Also, building societies were criticised for their purported role in perpetuating an old-boy network in the property market, and within its own Board, f.i.: “The services of the housing market have long been organized to suit the professionals who sell them rather than the consumers, particularly working people, whose hard-earned savings buy them. This is sad, for the building societies could have used their financial clout to get expensive burdens off our backs...Who, however, could have expected anything better, given the self-perpetuating boards of directors - often composed of individuals with extensive property interests themselves - who have run the societies with an almost unbelievable lack of managerial talent” (foreword by Ken Weetch, Labour MP for Ipswich In Barnes, 1984: xiii-xv). Building society leaders' responses lacked conviction, leaving them at the mercy of regulatory changes imposed by less sympathetic interests.<sup>967</sup>

Beyond the above specific problems, the more fundamental issue that came back to haunt building societies in the 1980s is the latter's clinging to a long outmoded version of neutrality; a nineteenth century version of non-interventionism that did not encourage the building of government and civil service relations during the “fat” decades of the 1930s, 1960s and 1970s. Because of this, and in spite of their growing material and political centrality in the English economy, building societies remained a secondary vehicle of the national economic interest throughout the post-WWII period. By contrast, in spite of their declining material success and centrality in the English economy, clearing

banks remained on top of the Bank of England's, Treasury's and government's mind. Undoubtedly, this was partly due to clearing banks' greater historical confidence in dealing with the government, and public-private City vehicles of the national economic interest. Barclays, the leading clearing banker which during the 1960s and 1970s was considered the world's pre-eminent banker, in particular fitted snugly in this pattern. In comparison, building societies long suffered from a negative approach to politics. English, rather than British in nature, building society executives felt « about [the British] government as Thomas Campion thought about women: 'Lost is our freedom, When we submit to women so ; Why do we need them, When in their best they work our woe ?' (Holmes, 1973 : 218-219).<sup>968</sup> Clearly, this historical apprehension was due to a relative failure to reinvent the building society movement's 19th century version of the tradition of neutrality – the laissez-faire principle, into a contemporary version – a version implying increasingly active forms of regulation and delegation. As we saw above, from the 1970s onwards, the clearing banks were also at fault: they were very slow at reinventing their meso-corporatist version of neutrality. Yet, their attitude to politics had long been more positive: « a sense of partnership and mutual benefit » with « government and with the public at large is essential for the success of banks and bankers in fulfilling their special role in the mixed economy ». <sup>969</sup> And they could count on the almost unconditional support of the Bank of England, Treasury and government. Lacking this unconditional support, the geopolitical changes of the 1970s and 1980s ultimately would turn building societies' historical apprehension into an existential crisis. By default of dynamic relations with the Conservatives, Labour or the Liberal Party, building societies found themselves estranged of the political scene at a time of great turmoil. Leading building society executives as well as the Building Society Association lost their bearings, and less than vigorously contested the emerging dominant perspective that PLC's were the only viable economic organisations in a geopolitical environment of nation-state globalisation.

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<sup>851</sup> Early fears of being locked out of the European customs area had led the UK government to initiate the European Free Trade (EFTA); by the end of the 1950s, however, it became clear that neither the EFTA nor the Commonwealth was a serious alternative for the EEC.

<sup>852</sup> Many business leaders argued that, with the declining economic importance of the Commonwealth, Britain was well placed to become an international gateway to European markets. There was of course a possibility that the UK – as it did – would run a trade deficit on manufacturing. But, it was argued, this was an unavoidable modernising implication for the domestic economy, and just a continuation of traditional economic policies that enforced greater domestic competitiveness through the external sanction of free trade (Gamble, 1994: 115).

<sup>853</sup> FBI, 1961. *The Next Five Years: Report of an F.B.I. Conference at Brighton on 24-26 November 1960*. London., pp. 6-7. Strangely, however, the Federation of British Industries did not argue that given the scarcity of resources available to Britain, investing more in the domestic industry would entail changing Britain's international policy of unilateral liberalism.

<sup>854</sup> The UK's applications for membership in the 1960s were met by staunch resistance from the French government as well as the other EEC members, uneasy as they were about the UK's preferential links with the Commonwealth and the US (Ludlow, 1997). Attitudes of the EEC members gradually changed during the 1960s, for two reasons. First, the US government expressed strong support for UK membership. Given international monetary problems – and the 1960 US balance-of-payments crisis, a run on sterling would have deleterious effects on the dollar. As reported in a 1963 Anglo/US Working Party on Liquidity Problems, 29 May 1963, BE OV 53/18 (cited in Schenk, 2002: 353). Because a strong sterling helped to prop up the US dollar as a reserve currency, this reinforced a financial conjunction of interests between the UK and the US (Schenk, 2002). Thus, building on the informal tradition of central bank cooperation between the Fed and the Bank of England, the US was a champion of multilateral support for sterling throughout the 1960s.

On a less official note, the US saw Britain as an important ally in the quest to restore the balance of economic power with the EEC Six. In particular the West German surplus was a thorn in the eye of the US.

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A second cause of the EEC members' change of heart was the collapse of the international monetary system and the gold pool after speculative pressures in 1968. This led the EEC members to reconsider their monetary policy. This, together with the fall from power of De Gaulle, and significant steps towards the elimination of the sterling balances problem - in 1967 the UK government devalued the pound against the dollar, from \$2.80 to \$2.40, greatly facilitated British entry in the 1970s (Schenk, 2002: 352-353; 361-369).

<sup>855</sup> According to Martin (1988: 396), several processes have had profound effects on the geography of inequality in the country: "The first and most apparent of these is the rapid and sustained de-industrialisation of the nation's manufacturing base. This has led to a fall in manufacturing employment of more than 2.8 million (36 per cent) since 1971, most of this having occurred since 1979. The second is the wave of technological innovation, based primarily on micro-electronics and information processing, that began in the early 1970s and which is generating a number of new industries and services while dramatically transforming the operation of existing ones. The third new development is the revival of economic growth and employment through a new wave of tertiarisation or service sector expansion, especially of financial, banking and producer services. The fourth change is political, and relates to the reconfiguration of government policy and state intervention that began under Labour in the mid- 1970s, but which has been particularly pronounced under the Thatcher governments since 1979. Finally, and intersecting with these various forces, Britain's role in the international economy and division of labour has been changing as a result of the restructuring of industrial capitalism on a global scale, and the consequential intensification of international competition."

<sup>856</sup> The aim of these innovations had been to develop a price and incomes policy with an eye on boosting exports through a general increase in the productivity and competitiveness of British industry (Katzenstein, 1977: 887-888).

<sup>857</sup> Germany's adaptation of the US' politics of productivity in terms of an "export-led growth" domestic consensus had dazzled even US elites.

<sup>858</sup> Macmillan in 1936 had famously - "infamously" to many contemporary Conservatives - said that "Toryism has always been a form of paternal Socialism" (*The Star*, London, June 25, 1936). Other famous Conservative quotes are from Lord Hinchingbrooke who said that "true conservative opinion is horrified at the damage done to this country by individualist businessmen", and Lord Hailsham who depicted capitalism as an "ungodly and rapacious scramble for ill-gotten gains" (Goldsmith, 1985).

<sup>859</sup> Demonstrating how uncomfortable they felt about these new responsibilities, both the Federation of British Industries (FBI) and the Trades Union Congress (TUC) had long opposed a voluntary restraint of wages and dividends. "While they disagreed on their diagnosis of the economic situation, both agreed that the government, and not the private sector, should be held accountable for Britain's economic difficulties. Both resented efforts by the government to shift the blame to them" (Blank, 1973: 133-134). Ultimately, the FBI and the TUC gave in, attempting to bargain their support of some sort of restraint for a change in government policies (Blank, 1978: 693-694).

<sup>860</sup> The role of interest groups in Britain has been largely functional (Almond, 1958); in particular, their function has been to act as a counterbalance to the growing role and increasingly centralized nature of the State (Beer, 1969).

<sup>861</sup> The Labour governments of the 1960s had relatively radical goals. Armed with the belief that they could depend on the unions to deliver, the Wilson government founded a new Department of Economic Affairs that would displace the Treasury in the long-term management of the British economy and that would promulgate plans that businesses would be willing and eager to follow. The National Economic Development Council (NEDC) - originally set up by the Conservatives with much more modest aims - would function as a corporatist vehicle for joint consultation between employers and trade unions, both nationally in the NEDC and regionally in the so-called "little Neddies". Working through the NEDC, the Department of Economic Affairs secured the National Plan, a joint statement on prices and incomes agreed to by the Trades Union Congress and the national employer organisations. The National Plan entailed that both unions and employer organisations would seek to moderate the increase of prices and wages in return for expansionist policies from government that would allow growth to become sustained and which in turn could fund increased wages and improved profits. In practice, however, little was done to moderate wage demands as workers took advantage of high levels of employment to insist on a share of the proceeds from prior growth. Also, the spread of shop steward organisation, especially in newer industries, gave rank-and-file activists a more influential voice within unions and on the shop floor. The plan foundered when the political plans met hard economic realities of an overvalued currency, inefficient industries, and a financial community with little confidence in, and considerable antipathy toward, a reforming government (Cronin, 2006: 55-56).

<sup>862</sup> The Wilson government's 1969 White Paper "In Place of Strife" proposed the following plan of reform. Trade Unions would be conferred a wide range of legal rights on in exchange for making contracts binding. In case

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union leaders failed to uphold contracts, the State would get the power to control local, unofficial strikes. Given their association of local voluntarism with success, this initiative provoked massive union resistance; union leaders were outraged about the government's apparent willingness to curtail free collective bargaining and to recast the legal framework within which the privileges of the trade unions would be embedded (Cronin, 2006: 55).

<sup>863</sup> The meaningfulness of Labour's mandate was somewhat diluted, however; voters had denied either party a parliamentary majority.

<sup>864</sup> According to Hickson (2005: 225-226), the UK government at the time at most was an "unbelieving monetarist" one. Rather than introducing full-blown monetarism, the Labour government introduced policy reforms that necessarily catered to monetarist pressures, while not giving up on non-monetarist issues of wage control, reflationary budgets and direct intervention in the labour markets. The three quasi-monetarist policy reforms in question were the publication of monetary targets, the increased use of monetary techniques in macro-economic policy, and the increased emphasis on anti-inflationary measures – at the cost of an increase in short-term unemployment.

<sup>865</sup> For UK policy makers the external strength of sterling was taken as almost the sole guiding principle in determining macro-economic policy at home. Throughout the 1950s and 1960s domestic demand, and particularly domestic investment, was curbed repeatedly in stop and go cycles payments reasons (Katzenstein, 1977: 888).

<sup>866</sup> "From the earliest postwar years, British governments adopted the policy of restraining domestic investment in order to strengthen the balance of payments, in the hope that capital goods would be exported rather than used by British industry. More generally, reducing the level of domestic demand, it was felt, would lower the flow of imports and ease the pressure of labor shortages on domestic industries. Whenever governments were faced with an adverse balance of payments, and thus with increasing pressure on reserves, they attempted to remedy the situation by cutting back domestic investment" (Blank, 1977: 692).

<sup>867</sup> As mentioned in chapter 8, it was the emergence of the Euromarkets and the role of the dollar as an international vehicle and reserve currency allowed the US to run large balance-of-payments deficits since 1968 – before 1968, the last time the US had incurred a deficit was in 1893. It freed the United States from many adjustment pressures, allowing it to maintain a large degree of policy autonomy up to the 1978 dollar crisis (Lucatelli, 1997: 26-34).

<sup>868</sup> While foreign central banks could have enforced monetary discipline on the United States by converting dollars into gold, in practice they refrained from doing so until 1965, when the French began to convert dollars into gold in the face of large and persisting American balance of payments deficits. By that time, a large dollar imbalance had been created by expansionary US monetary policy. The relative world supplies of gold and dollars trended in opposite directions over this period, and clearly a fixed dollar-gold exchange rate was not sustainable under these circumstances. In the event the Bretton Woods System collapsed from 1971 to 1973 following closure of the gold window on August 15, 1971 (Calomiris and Wheelock, 1997: 39-40).

<sup>869</sup> What was the role of the Treasury in all this? The level of tolerance for inflation among English bank and public service officials historically had been particularly low. Because of the remarkable economic growth in the 1950s and 1960s, this low tolerance had not been so visible. A first crack in this tolerance was observed in 1967, when the devaluation of the pound signalled the resurgence of Treasury dominance in civil administration (Bowden, 2000: 188). And when the performance of the British economy after the 1973 oil shock turned out to be much worse than that of its main OECD counterparts, the national predilection for an overvalued pound really came back with a vengeance. Indeed, the imperative of currency defense bore an almost moral character for English policy from that moment on (Fourcade-Gourinchas and Babb, 2002: 549-550).

<sup>870</sup> An outspoken critic of the Soviet Union, Thatcher earned the nickname the "Iron Lady" after delivering a blistering attack against the Soviet leadership in a 1976 speech.

<sup>871</sup> The term was coined to summarise policy advice themes commonly shared by Washington-based institutions such as the International Monetary Fund, World Bank, and U.S. Treasury Department.

<sup>872</sup> Peter Tapsell, Conservative, House of Commons, 24 March 1993: 967-868.

<sup>873</sup> Massive speculative pressure on the eve of the French referendum precipitated the worst crisis in the thirteen-year history of the European Monetary System, resulting in the ejection of the sterling and the lira from the ERM, the devaluation of the peseta, the threat of forced devaluation of several other currencies, including the "hard-core" franc, and the abandonment or near-abandonment of unilateral currency pegs to the system by non-ERM countries. The ERM crisis led to a lot of political recriminations and blame-laying between Britain and Germany in the aftermath (Sevilla, 1995). That is because one of the main, yet unintended reasons for the collapse of the ERM in 1992 was German reunification. The reunification had prompted the transfer of more than half West German savings to East Germany, and a sudden rise of the government deficit from 5 to 13.2%. This caused an

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enormous rise of interest rates, and a flight of money away from Europe, with devastating consequences for the UK.

<sup>874</sup> Thatcher initiated the critical turn with her programmes of low taxation, low government spending, deregulation and privatisation, in combination with the reassertion of the nation state as the guarantor of national identity and national independence (Baker et al., 2002). In this regard, the Conservatives, Callaghan, Blair and Brown unavowedly have welcomed globalisation as a way to put incontestable constraints on “socialist” measures or “trade union hotheads”, both incompatible with the essential British tradition of liberty and property (e.g. Portillo, 1998).

<sup>875</sup> To restore the city of London’s status of world financial market, it did not suffice to allow for relatively unregulated Eurodollar markets; exchange and capital movement controls also had to be removed.

<sup>876</sup> In 2006, the Conservative Party published its statement of aims and values – Built to Last. In his foreword, David Cameron put “a responsibility revolution” at the heart of the modern Conservative Party’s mission. “The country needs a new direction and new answers. I am clear about the new direction we must set for Britain. To meet the challenges of the Twenty-First Century, and to satisfy people’s aspirations today, this country needs a responsibility revolution.” <http://www.conservatives.com/pdf/BuiltToLast-AimsandValues.pdf>

<sup>877</sup> Howard, M. 1994. “Conservatives and community”, *Disraeli lecture 1994*. London: Conservative Political Centre.

<sup>878</sup> Speech by David Cameron at the 2007 Conservative Party Conference in Blackpool.

<sup>879</sup> By the 1970s, Labour’s ability to work collaboratively with the unions constituted one of the party’s main claims to national leadership.

<sup>880</sup> Opinion polls showed that, prior to the winters of discontent, that voters were more or less evenly split between Labour and the Conservatives. Tellingly, the Labour leader, James Callaghan, was much more popular than his opposite number, Margaret Thatcher. All this changed after the winter of discontent, ushering a near twenty year period of Conservative government.

<sup>881</sup> Tony Blair announced this ambition in a speech given to North American financiers in New York (10 Downing Street Newsroom, 14 April 1998).

<sup>882</sup> For instance, when New Labour – the unavowed heir of Thatcherism – came to power, it quickly dropped any ideas of a capital levy on City business in favour of domestic industry, just as Old Labour had done after WWI (Whiting, 1987).

<sup>883</sup> Tony Benn, Labour, House of Commons, 24 March 1993: 984

<sup>884</sup> Not surprisingly, it was only when John Smith replaced Neil Kinnock as party leader in 1992 that a campaign was launched to diminish the importance of the union vote in determining party policy and the way that vote would be cast. Tony Blair would deepen these efforts, and Gordon Brown has vowed not to backtrack

<sup>885</sup> The “social charter” would replace the British tradition in which unions had few formal legal rights but extensive informal privileges

and immunities with a new framework that would not restore the rights of unions per se, but that would guarantee workers greater individual rights— including the right to unionize and protections against unfair dismissal—and that would, by extension, create a more favorable context for unions.

<sup>886</sup> Blair explicitly revived the language of Britain as a bridge between Europe and the United States. What this meant was that Anglo-America rather than Europe remained the priority for Britain. And if there was a choice to be made in the security field between a common European policy and support for the United States, Britain would continue to choose the US (Gamble, 2007: 13). Examples of Blair’s Atlantic primacy abound. Much is known of Gordon Brown too. For instance: <http://www.guardian.co.uk/commentisfree/story/0,,2137109,00.html>: “Gordon Brown is an Atlanticist who has long been enthralled by the idea of America... For all the talk about putting more emphasis on multilateral alliances and soft power, look at what Gordon Brown is actually doing. His early decisions have been to tighten the bonds of hard power between Britain and America. To surprisingly little attention in the media and little fuss from the left, the Defence Secretary has just announced that Britain will allow America to use the air base at Menwith Hill in Yorkshire as part of its contentious missile defence system... Even before he became Prime Minister, Mr Brown signed up to renewing Trident missiles, which will leave Britain dependent on American military technology for decades to come. Some weeks ago, I predicted that Mr Brown would give the green light to the construction of two new aircraft carriers. He did just that last week. These carriers will be the largest warships that Britain has ever put on the oceans. Sir Alan West, the former First Sea Lord who is now Mr Brown’s security supremo, has described the carriers as ‘four acres of British sovereign territory that you can move anywhere in the world’ in order ‘to project power’. British sovereign territory they may be, but the carriers will be equipped with American Chinook helicopters and Joint Strike Fighters, also made in the US of “

<sup>887</sup> For an explanation of the “Council of Wise” tradition of democratisation, see chapter 9, p. 278.

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<sup>888</sup> Even the Labour cabinet of 1964 was composed for more than one third of traditional upper-class figures, six ministers were products of the exclusive Clarendon public schools, and only two Ministers had graduated from universities other than Oxford. Prime Minister Harold Wilson, while coming from a lower middle class background, was Oxford-educated.

<sup>889</sup> "Thatcher Pledging More Of The Same Stern Stuff", *The New York Times*. May 17, 1987.

<sup>890</sup> Ashdown even signalled the end of the Liberal Democrat policy of 'equidistance' between the two largest parties, and indicated that he would be prepared to work with Labour to defeat the Conservatives.

<sup>891</sup> The Liberal Democrats increasingly were targeting winnable constituencies to overcome the constraints of the first-past-the-post electoral system.

<sup>892</sup> Although one could equally argue that it is Thatcher who is the heir of Old Liberal policies.

<sup>893</sup> In "the Report on Bank Charges, made by the Prices and Incomes Board in 1967...the Board severly criticised the agreements governing interest rates which exist between the banks; it contended that 'a widening of the area of competition' was desirable and that one way of achieving this would be the abolition of the agreements...the nub of the Board's complaint thus lay in what it regarded as an undesirable cartel agreement among the banks for restricting competition between each other in interest rates - the interest they will pay on deposits, and certain of their lending rates too. The banks themselves replied strongly, in offended tones - to say the least: they maintained that to abandon their agreements on interest rates would raise not only the cost of borrowing by bank customers but also interest rates generally; furthermore, they contended that the reasons for the agreement were sound, that they were in the interests of the financial stability of the country, and moreover that the banks were competing, ever more strongly, in other ways (Clegg, 1969: 163-164).

<sup>894</sup> "The introduction of competition and credit control in 1971 would prove incapable of restraining credit at a time of high demand and was soon amended by the introduction of the corset. The clearing banks gradually increased their participation in these new markets at the expense of the discount market ; the new system of monetary control introduced in 1981 appeared to support the continuing existence of the discount houses. But the subsequent reduction of the necessary holding of 'club money', as the deposits with the London Discount Market Association are known, might perhaps be taken as an indicator that the authorities would like, eventually, to remove the support offered by club money holdings» (Grady and Weale, 1986: 64-65).

<sup>895</sup> To this end all competitive restrictions on bank loans, such as maximum growth rates, qualitative guidelines on desirable borrowers, and interest rate restrictions were abolished. Moreover, in the search for equity, the U.S. banks were also subjected to a legal reserve requirement. This was set at the same level (12 1/2 percent) for all banks in Britain, but had to be held against sterling liabilities only, leaving other currency liabilities free from regulatory controls; reserve assets had to be held in the form of sterling assets, such as U.K. treasury bills, acceptances, and money at call with the London Discount Market. These reforms lasted only two years. At the end of 1973, faced with rapidly accelerating inflation and a worsening balance of payments position, the Bank of England sought to reverse its CCC policies and reimpose stringent controls on the banking system in line with those that existed pre-1971, but this time extending them to the whole banking system." The first step was to call for "special deposits," whereby all banks had to deposit a certain percentage of their sterling liabilities with the Bank of England. While these deposits earned the going treasury bill rate, they were unavailable for loans and hence imposed an implicit tax on sterling operations. The initial calls for special deposits were also quite high, rising from 3 percent in July 1973 to 5 percent in December of that year. The second step was to try to restrain the overall growth rate of sterling business through an additional scheme of penalties. At the end of 1973, all banks in Britain were warned that any growth in their sterling eligible liabilities at a rate of more than 1% percent per month would be subject to a call for "supplementary" deposits. The latter were, like special deposits, compulsory loans to the central bank; however, they were more costly to the banks since they bore no interest, and were levied at an increasing rate according to the amount by which an individual bank exceeded the 1 1/2 percent growth rate. The initial scheme of penalties was for a call of 5 percent for growth of sterling interest bearing liabilities of up to 3 percent in excess of the target figure, 25 percent for excess growth of between 3 and 5 percent, and 50 percent for growth of more than 5 percent in excess of the stated target. These measures were further supplemented in December 1975 by the imposition of qualitative guidelines from the Bank of England on the acceptable areas in which U.S. and other banks could make sterling loans. While these were only guidelines, the banks were expected to adhere as closely as possible to these measures. Acceptable areas of sterling lending were designated as finance to manufacturers and for working capital, whereas personal loans, installment credit, and loans to property companies were to be severely rationed. In addition, the target levels for acceptable rates of growth of interest-bearing sterling liabilities were further tightened in November 1976, with new targets being specified as only a 3 percent growth over the succeeding three months and 92 percent for the two months that followed, with the penalties for excess growth remaining the same. As outlined above, the recent history of

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British regulation of U.S. banks appears to have been one of increasing specificity of control (Goldberg and Saunders, 1980: 639-640).

<sup>896</sup> In 1968 the Westminster and the National Provincial combined into National Westminster Bank PLC to reduce the "Big Five" to the "Big Four" (Chappell, 1980: 266). What is more, the Bank's Governor had pointed out that the Monopolies Commission that « there would be advantages for the Bank in having only three large banks to deal with » (Moran, 1984: 50).

<sup>897</sup> Internal Paper 19; cited in Kynaston, 2001: 439.

<sup>898</sup> Although all these measures considerably tightened up regulation, breaches of the legislation by the Johnson Matthey Bank were not detected by the Bank of England

<sup>899</sup> Moran, 2003; Reid, 1988.

<sup>900</sup> The Securities and Investments Board's independence was guaranteed by its status as a corporate body financed by a levy on the industry. Then again, the power it wielded was based on statute, its own constitution was prescribed in law, its leading officers were publicly appointed, and it was required to report to Parliament and to the central state in Whitehall.

<sup>901</sup> Vogel, S. 1996: 93-117 is authoritative.

<sup>902</sup> In keeping with the Washington Consensus, the Thatcher government was happy to let British financial capitals fall into foreign ownership as long as the acquiring institution was privately owned.

<sup>903</sup> The Financial Services Authority is a company limited by guarantee financed by a levy on the industry, thus conferring 'ownership' on the regulated themselves.

<sup>904</sup> Financial Services Authority 2001: 9-19.

<sup>905</sup> In contrast, the United States uses many agencies to regulate banks, including the U.S. Office of the Comptroller of the Currency, the Federal Reserve Board, the Office of Thrift Supervision, and the Federal Deposit Insurance Corp. In the U.S. there are also state regulators.

<sup>906</sup> Financial Services Authority 2002.

<sup>907</sup> Apart from the secondary banking crisis in Britain, the 1973-78 period saw the Herstatt failure in Germany, the real estate investment trust debacle in America, the failure of the Franklin National Bank and severe problems at the Japanese securities houses.

<sup>908</sup> Since Lloyd George's government the pendulum has oscillated between conciliation and confrontation of the unions without either going back to the complete removal of their privileged status in law or forward to their full incorporation into the making of government policy. And, according to the same logic, the fact that there were only one third of the number of workplaces in 1987 employing 2,000 or more people than there had been in 1977 was of far more significance for trade unionism than anything done by Mrs. Thatcher or her government (Runciman, 1993).

<sup>909</sup> Eden, A. 1947. *Freedom and Order: Selected Speeches, 1939-1946*. London.

<sup>910</sup> In 1977 the dam broke. The USA rapidly climbed in the league table to first position and from 1978 onwards has accounted for over 50% of the total annual outflow of direct investment. How does one account for such a rapid change? There seem to have been a number of factors at work. First, was the delayed reaction to the problems in Europe – the trade deficit in manufacturing and national protection mechanisms, when firms like Cadbury Schweppes sought acquisitions in a more receptive market... Second was the resurgence of sterling. Suddenly, the cost of dollar acquisitions was reduced to affordable proportions, and with the low share price levels on the New York exchanges, American assets were seen to be 'going cheap'. Third, were the changes affecting the international financial markets and the strategies of the major banks and insurance companies. National Westminster Bank bid for the National Bank of North America for £300 million, and Standard & Chartered Bank bought Union Bank Corp for \$365 million, both in 1978. Barclays added to its earlier Californian investments by buying American Credit. They were soon joined by Midland and Lloyds. Fourth, was an element of 'me-tooism', pulling more on to the bandwagon than might otherwise have been the case. Fifth, was an element of political motivation, born of fears that European governments were likely to remain concerned with regulation and social issues rather than with creating conditions for profitable growth. To the more extreme pessimists in British boardrooms, the USA loomed as the last bastion of capitalism (Stopford and Turner, 1985: 91-92).

<sup>911</sup> As a result, contrary to most Western European countries, Britain currently seems to lack a mainstream right-wing party that puts the national interest first. Instead, as with New Labour, the Tories see it as their duty to make it subservient to a substantial extent to that of the United States.

<sup>912</sup> For instance, in an address to the Women's Royal Voluntary Service in 1981, she saw "the voluntary movement . . . at the heart of all our social welfare provision" and told her audience that "we politicians and administrators must not forget that the state has a limited role" and that "the willingness of men and women to

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give service is one of freedom's greatest safeguards. It ensures that caring remains free from political control". [Quoted in Maria Brenton, *The Voluntary Sector in British Social Services* (London, 1985), pp. 143-4].

<sup>913</sup> When municipal government was reformed in 1835, Dissenters flooded into town councils throughout the country. Strong at the local level, sparsely represented at the national, Nonconformists and men of their class naturally tended to distrust the central state which was still in aristocratic hands. Naturally, as well, they came to idealize the virtues of decentralized, local government which they could influence or control. The progressive vision of society which Nonconformists shared with other liberals, a vision in which privilege and patronage were to be replaced with equality and individual independence, was embodied in the movement for free trade. Evangelical stress on individualism and personal responsibility supported the idea of a free market in labor. The idealized localism of provincial businessmen supported the call for an end to state interference in business affairs...Most notably in the Anti-Corn Law movement, Nonconformists raised free trade to the level of moral principle, and they saw its introduction as a critical turning point between the old order of society and the new..."the parallelism or coincidence of economical truth with practical Christianity"..."Free Trade is but a part of the unrestricted development of the national mind; it implies the doing universally what is just". The society of the future, as Nonconformists saw it at the middle of the century, was a middle-class millenium in which the corrupt power of the aristocracy was eliminated, the Church of England was merely another denomination like the rest, and every individual proved his own worth before God and his fellow men (154)...They considered poverty the result of two very different causes. Aristocratic oppression was one, and Nonconformists believed that the power of the aristocracy to oppress the poor either directly through taxation, or indirectly through destroying their ambition with paternalistic social arrangements, was rapidly fading away. The other cause of poverty, and the more important one, lay in the individual moral weakness of each poor person. Men were poor because they did not work hard enough, or because they were not thrifty enough, or because they were not independent enough to search out opportunities for self-improvement, or because they drank too much (Helmstadter, 1979: 155).

<sup>914</sup> During the 1960s and 1970s, no one paid much attention to the politics of local government. It was a political backwater, an administrative arm of central government without an independent 'politics' of its own. Local councils were assumed by many to be concerned with making practical non-political decisions, guided by the judgement of professional officers. Municipal councils had been one of the cradles of the semi-nonconformist, Lib-Lab movement in the latter decades of the 19th century, and of the Fabians' municipalisation movement which was renewed in the decade after WWII. By the 1960s and early 1970s, however, Labour had been sufficiently in central power to dismiss local government as nothing more than the rest home for the geriatric Right (Seyd, 1987). Not only Conservative councillors were predominantly old. As soon as local government lost its radical edge in the 1960s, remaining Labour councillors began to see themselves as pragmatic rather than as class warriors. And they were predominantly old (Lansley et al., 1989: 3). In the late 1970s, due to the Liberal Party's grassroots politics, there was a marked transformation and local government was to be at the centre of the political stage for a decade, especially in Northern cities such as Liverpool. Remarkably, the christian liberal Thatcher did not pick up on that, but rather saw this modest revival of local voluntarism as a threat. In response, she championed the Local Government Act 1988, which limited the powers of a council to intervene in issues of « political controversy » (Lansley et al, 1989 : 206).

<sup>915</sup> The years between 1867 and 1914...witnessed the growth of the welfare state and a contest for power between the classes enfranchised by the 1867 and 1884 Reform Bills and the old oligarchy which had ruled since 1832. To meet this challenge some members of the old oligarchy in 1882 founded a pressure group, the Liberty and Property Defence League, dedicated to the defence of the principles of free contract, rugged individualism, and laissez-faire. Composed of landed aristocrats, 'old liberal'- new model employers, whigs and other vested interests, many of whom had practised private paternalism, the league was founded in reaction to the growth of 'grandmonterly' legislation, trade unionism, and 'promising politicians'...the difficulty of an 'Establishment' defending its position in a mass democracy with an ideology based on the doctrine of liberty and property...the L.P.D.L. owed its birth not only to various threatened interests defending property, but also to a group of ideologues firmly committed to the ideal of liberty...defender of the status quo with the weapon of laissez-faire (211)...upheld the principle of liberty and guard the rights of labour and property of all kind against undue interference by the state, and to encourage self-help vs. state-help...one of the main purposes of the league was to serve as a counterpart to the TUC and its parliamentary committee...the league's world view was an amalgam of laissez-faire economic ideas, the philosophic views of positivism, and the whig political fear of democracy...As the Labour Party outbid the Liberal Party for the votes of the collectivist-minded,...polarisation took place and the Conservative party assumed the position as defender of liberty and property (Soldon, 1974 : 208, 210-213, 232).

<sup>916</sup> Ronald Reagan, speaking at a 1983 press conference, defined his dream for America this way: "What I want to see above all is that this country remains a country where someone can always get rich. That's the thing that we have and that must be preserved" (White, 1988 : 24-25). The hourglass "Save the Dream" ad, joined with Reagan's belief that the dream can best be defined by the opportunity to get rich, declares that the Centennial-era "lady" in 1986 was a monument to individual financial opportunity (Evertz, 1995). Note that the term "American dream" was not coined until the Great Depression; since then, it has enjoyed an amazing fluidity of meaning

<sup>917</sup> [http://www.statistics.gov.uk/downloads/theme\\_economy/ShareOwnership98.pdf](http://www.statistics.gov.uk/downloads/theme_economy/ShareOwnership98.pdf)

<sup>918</sup> [http://www.statistics.gov.uk/downloads/theme\\_economy/Share\\_Ownership\\_2006.pdf](http://www.statistics.gov.uk/downloads/theme_economy/Share_Ownership_2006.pdf)

<sup>919</sup> Starting in 1984, equity ownership grew more rapidly in the UK than in the US. While the gap in equity ownership has narrowed, by the mid 1990s one-quarter of British households directly owned stock compared to one-third of American households. In UK most of the increase was concentrated in a four year period from 1985 to 1988, coinciding with the flotation of previously nationalized public utilities such as British Telecom (1984) and British Gas (1986). Around this time, the UK government introduced also a further set of measures aimed at promoting a 'share-owning democracy' - namely tax-favoured employee share ownership schemes. In the US the increase in share ownership was more gradual throughout the 1980s (Banks et al., 2000: 22). One result of these trends was that although the stock market boom was relatively similar across the countries, the fraction of American households benefiting was far higher than in Britain throughout the 1980s and 1990s (Banks et al., 2000: 22-23). Moreover, conditional on owning some stock, the value of stock holdings was considerably higher among American households. .in both countries, distributions of stock values are highly skewed, with extreme concentrations in five to ten percent of households. But at all points in the distributions, the value of American holdings are multiples of two or three of those held

by British households...after the stock market surge in both countries, British households had stock wealth similar to American households ten years earlier. In the early 1980s, however, we know that in light of the subsequent extremely large increase in share ownership British households' stock holdings were considerably smaller than their American counterparts (Banks et al., 2000: 23)...the culprit causing the rapidly increasing financial wealth inequality in the US is easy to find...the largest increases in financial wealth holdings are concentrated among the well-to-do indicating that there is little doubt the stock market surge was largely responsible for increasing wealth inequality in the United States during the 1980s and 1990s (Banks et al., 2000: 24).

Stock market participation is, and has always been, higher in the US than in the UK. Prior to the mid 1980s, there was a tax bias in Britain away from direct holdings of equity towards wealth held in housing or occupational pensions, since equity was more heavily taxed than consumption, and housing and pensions benefited from tax advantages relative to consumption. Given the structure of the tax system these differences were significantly greater in times of high inflation. The introduction of Personal Equity Plans and Employee Share Ownership schemes meant that, from 1987 at least, equity could be held in a more favorably taxed manner by British households (Banks et al., 2000: 27).

<sup>920</sup> Included in individual ownership are shares owned by company directors and those in demutualised companies which are still owned by individuals. The figures for individuals' shareholdings do not give a complete picture of their equity investments, since unit trusts will be overwhelmingly funded by individuals, although they do include shareholdings held directly in Personal Equity Plans and Individual Savings Accounts (ONS, 2007: 11).  
[http://www.statistics.gov.uk/downloads/theme\\_economy/Share\\_Ownership\\_2006.pdf](http://www.statistics.gov.uk/downloads/theme_economy/Share_Ownership_2006.pdf)

<sup>921</sup> <http://www.statistics.gov.uk/cci/nugget.asp?id=107>

<sup>922</sup> [http://www.statistics.gov.uk/articles/economic\\_trends/ownership\\_of\\_UK\\_quoted\\_companies\\_1997.pdf](http://www.statistics.gov.uk/articles/economic_trends/ownership_of_UK_quoted_companies_1997.pdf)

<sup>923</sup> Different from the Bank of England, the Fed has always been relatively insulated from centralist Washington politics in three ways. First, the system is "self-financing," so it is independent of the annual appropriations process. While the reserve banks are owned by their member banks, they must purchase stock in the Fed and follow the Fed's regulations. The member banks elect their reserve bank's board of directors, who select the bank's executive officers; in this way member banks can influence their regional bank's affairs. Second, Congress has never exercised sustained and close oversight of the Fed's operations. Third, the Fed is a joint public-private partnership, "a pyramid having a private base, a mixed middle level, and a public apex": the Board of Governors is the "apex" of this model, the Federal Open Market Committee is at the "middle, and "the "bottom" consists of the Reserve Banks, each of which has a Board with nine members; the commercial banks elect six of these members, while the Board of Governors appoint three of them (Reagan, 1987: 287). This organisational structure discourages sectional interest group politics, but does not inhibit it altogether. The seven-member Federal Reserve Board, located in Washington, sets the Fed's basic policies and oversees its operations, but twelve Federal Reserve banks conduct the Fed's operations. It's a public-private board supervising quasi-private reserve banks, a board free from Congressional appropriations and presidential oversight, a board composed of officials

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exercising Congress's monetary powers yet possessing great autonomy and broad flexibility (Kettl, 1986; Rowe, 1965). Interestingly, the Reserve Banks – although privately owned and controlled—are “public institutions performing public functions: Their net earnings must be paid into the U.S. Treasury. And if the banks were ever liquidated, “any surplus remaining after payment of all debts, dividends, and the par values of capital stock” would “become the property of the United States government” (Seidman and Gilmour 1986: 309).

<sup>924</sup> The Securities and Investments Board's independence was guaranteed by its status as a corporate body financed by a levy on the industry. Then again, the power it wielded was based on statute, its own constitution was prescribed in law, its leading officers were publicly appointed, and it was required to report to Parliament and to the central state in Whitehall.

<sup>925</sup> The fact that both the Fed's and the FSA's legitimacy are now been questioned, provides for a new window of opportunity.

<sup>926</sup> As noted by Dobbin and Sutton (1998), the strength of the US State that it – in contrast with the French State – keeps an appearance of being administratively weak and fragmented, while exerting very strong normative pressure on private actors. Indeed, the key to the peculiar strength of America's weak state is that Americans come to see civil society and the market as the sources of social phenomena that are in fact generated by the state. The U.S. regulatory framework led managers to recast policy-induced structures in the mould of efficiency – this is Four Characteristics of U.S. Employment Law: 1. ambiguity and complexity of compliance standards – this convinces executives that they'll need experts to properly comply. 2. expanding scope of the law – executives see need to establish permanent offices to track changes. 3. fragmented nature of regulation – not only general compliance offices needed, but special antidiscrimination, benefits and health and safety offices to handle different regulatory agencies. 4. antistatist elements of the state – management specialists want to keep their jobs, so recast in efficiency terms to disassociate with policy (Dobbin and Sutton, 1998).

<sup>927</sup> It is only in foreign policy issues that the State avowedly adopts the principle of territorial centralisation; but then again with strong normative overtones. Foreign policy as the shief of homegrown US traditions.

<sup>928</sup> The English State tradition entails a belief in the geopolitical effectiveness of “neutral transformatory structures processing ‘inputs’ (demands and supports) from the system's environment into outputs” (Dyson, 1980: 230).

<sup>929</sup> In other words, the US has “a strong religious culture because the strains of cultural transition and the need for cultural defence gave each of these groups good reasons to remain committed to its religion” (Bruce 1996: 137).

<sup>930</sup> Provocatively, the latter authors propose that instead of the US, it is the UK which comes closest to a post-industrial society characterised by “Latin American” scenario of a “narrow, hyper-serviced elite being waited upon by a mass of impoverished servants” (Esping-Anderson, 1999: 838).

<sup>931</sup> The only change in formal suffrage criteria was the enfranchisement of the homeless in 2001, a symbolic deed more than anything.

<sup>932</sup> It has only risen slightly since, to around 9,000, by virtue of the development of the Barbican Estate.

<sup>933</sup> In 2001 a private member's bill was introduced into the Parliament for this purpose, and after the 2005 election the Lord Privy Seal, Geoff Hoon, called for compulsory voting to be introduced in an effort to deal with political alienation, restore a feeling of community, and address what he called the dangerous issue of “serial non-voters” (‘Hoon suggests compulsory voting’, BBC News, 4 July 2005, [http://news.bbc.co.uk/1/hi/uk\\_politics/4648095.stm](http://news.bbc.co.uk/1/hi/uk_politics/4648095.stm))

<sup>934</sup> The Co-operative Bank in 1975 gained the membership of the London Bankers' Clearing House, as the first bank in almost 40 years. Equally, feeling that the title Co-operative Building Society had become overly restrictive to its expansion, the Co-operative Permanent Building Society left the Co-operative Union in 1972 and changed its name to “The Nationwide Building Society”.

<sup>935</sup> Prior to 1969, the Post Office had responsibility for Savings Accounts, Savings Certificates and Premium Bonds (ERNIE). On 1st October 1969, when the Post Office became a Corporation, the Savings Bank functions remained as part of the Exchequer and became National Savings. Throughout the 1960s, the Post Office was still a government department, part of the Civil Service, but on 1st October 1969 it became a public corporation, i.e. anationalised industry. Trustee Savings Banks ceased from being part of National Savings after 1979 and became a banking company owned by shareholders from 1986 as TSB Group PLC Limited (Gosden, 1996 : 158). In terms of regulatory deliberations and processes, the story unfolded as follows. The 1973 Committee to Review National Savings – commonly known as the Page Committee – recommended a more modest role for National Savings in the funding of government debt, as well as for the government in providing a safe investment for small savers. Neither had National Savings made a substantial contribution to the financing of government debt, nor did it constitute a cheaper method. And, given the greater role of private sector provision for personal savings since 1950, the government's role in this was not at all compelling anymore. Meanwhile, the TSB Association was

lobbying for wider powers to provide personal credit, have more discretion regarding its Special Investment department, and to have easier access to capital for branch development. The Committee concluded that the TSBs should get wider powers. On a less positive note, the Committee advised against the current situation of advantageous tax reliefs and exemptions for savings bank depositors – as compared to for instance the building societies. In sum, the Committee’s Report concluded that the TSBs should organise themselves in to much larger and tighter regional groups, with a strong central organisation. In this way, the TSB could become a “third banking force” between clearing banks and the National Savings Bank, banking organisations similar in most respects to the clearing banks except that they would be mutual and not profit making, and would confine their activities largely to the operation of personal accounts” (cited in Robbie, 1992: 15-16). Between 1977 and 1979, the federation of savings banks increased its range of services in both banking and insurance, including the introduction of lending products, investment management and a nationwide insurance sales force. By 1981, mergers had reduced the number of regional trustee savings banks to sixteen; the federation quickly built up its reserves. When in 1980, the Chairman of the TSB Central Board retired, an external candidate with a non-mutual background was recruited – an accountant and former chairman of a large public company in the private sector. Not surprisingly, by August 1982 the TSB Group announced plans to transform itself from a federal mutual structure into a Companies Act structure (TSB Group Report, 1983: 5).

<sup>936</sup> Yet, since the TSB was particularly weak in the South East – home to a buoyant mortgage market – its share dropped to 2.2 per cent of the 20 per cent of the total mortgage market held by all newcomers.

<sup>937</sup> Table: Economic ratio comparison Commercial, Savings and Co-operative banks in 1981 (in £ million)

	Total assets	Total deposits	Capital reserves and	Pre-tax profits
<b>Barclays</b>	37,097	31,980	1,992	523.5
<b>National Westminster</b>	34,569	31,820	2,146	410.0
<b>Midland</b>	25,343	22,906	1,349	231.8
<b>Lloyds</b>	19,866	18,118	1,395	289.0
<b>Trustee Savings Bank</b>	6,221	5,757	464	110.0
<b>Co-operative Bank</b>	686	582	47	5.4

<sup>938</sup> The takeover of NatWest made the Royal Bank of Scotland the second-largest bank in both the UK and Europe in terms of stock market value.

<sup>939</sup> This acquisition gave HSBC the major foothold in Europe that it needed to complement its existing business in Asia and the Americas.

<sup>940</sup> This division was populated by an entirely different species of bankers – arrogant, opportunistic, and better paid – than common amongst the rule-driven employees of Barclays. Not surprisingly, mutual resentment was the norm.

<sup>941</sup> TSB was created in 1985, by an Act of Parliament that merged together all (except Airdrie Savings Bank) the remaining savings banks in Great Britain under TSB Bank PLC.

<sup>942</sup> Barclays announced that its investment bank’s 2007 pre-tax profit had increased by 55%, contributing almost a third of the firm’s pre-tax profit. And Royal Bank of Scotland (RBS), the country’s second-largest bank, reported that its corporate market business was the bank’s fastest-growing division in the first six months of the year, producing more than half of its pre-tax profit of £4.6 billion. Finally HSBC, Britain’s biggest bank, announced that first-half profits from investment and corporate banking had increased by more than a third in 2007.

<sup>943</sup> In order to facilitate expansion, the CWS Loan and Deposit Department in 1970 was incorporated as a private limited company under the name of “Co-operative Bank”. A Bill was presented before Parliament to give effect to the transfer of the CWS banking operations to a separate, wholly-owned subsidiary company. The transfer took place on 10 July 1971 in accordance with the Co-operative Bank Act 1971, which made provisions for complete continuity of banking business.

<sup>944</sup> Three factors have been associated with the decline in the number of clearing bank branches in the period 1950-1979:

a) bank mergers in 1969. In that year the District, National Provincial and Westminster Bank merged to form National Westminster and Martins Bank was taken over by Barclays. In 1970 Glyn Mills, National and Williams Deacons merged to form Williams and Glyn...

b) disclosure of profits. At the end of 1969 the London clearing banks agreed to forego the majority of their exemptions from the various Companies Acts. This induced the banks to study the profitability of individual branches far more closely and to take appropriate action

c) both the mergers and the disclosure of profits were the result of, and a stimulus to, greater competition between the banks, which reached its culmination in 1971 with the abandonment of the agreements on the rates of interest to be offered on deposits and charged on advances...increased price competition in the banking sector has resulted in a greater emphasis on profitability and efficiency and a reduction in expenditure on non-price competition and therefore has contributed to the reduced number of branches (Boleat, 1981: 53).

<sup>945</sup> Up to 1983, most of the money deposited with building societies was lent to house buyers, although some 15-22% is invested in financial assets which are held partly to finance withdrawals from deposits and other cash needs.

<sup>946</sup> Carpetbaggers tried to open accounts, usually with the minimum balance required in order to qualify them for a distribution should conversion or takeover occur. At societies deemed potential candidates, account opening levels increased by as much as tenfold. While this has induced building societies' management to increase minimum opening balances on their share accounts, as well as differentiate themselves anew by demonstrating a greater commitment to member mutuality such as Nationwide in 1996 with its announcement that it would pass on to its members the continuing benefits of remaining a building society « by allowing them to enjoy in one form or another the money which would otherwise have to be used to pay dividends to shareholders (1996 Nationwide Annual Report, Chairman's statement ; Blair, 1997: 15).

<sup>947</sup> The Times, 29 November 1991, cited in Marwick, 1996: 414.

<sup>948</sup> "Liberal Praise for Co-operative Bank", Co-op News, February 28<sup>th</sup>, 1975. This article reports how the Liberal MP Richard Wainwright applauds "the enlightened way in which the Co-op Bank caters...for the needs of the ordinary people", but laments that "the Co-op Bank is unable to have premises in every High Street in the way that the lordly four main clearing banks do". Wainwright concludes that "there is a class element there which should have been eradicated years ago".

<sup>949</sup> Already in 1978 did the Co-operative Bank's marketing manager declare: "We are now seen to be standing on our own feet: people no longer regard us as being not quite serious" (The Guardian, 2 May 1978).

<sup>950</sup> The Co-operative Bank launched quite a few other innovative initiatives during the 1980s and 1990s. So, in 1985 it launched a first high interest cheque account for business customers, in 1986 it became the first bank in Europe to offer credit interest to its Visa cardholders, in 1987 the first UK bank to open all branches from 9.30am to 5.00pm, and in 1991 the first bank to offer a guaranteed "Free for Life" Visa Gold Card. In 1989, the Co-op Bank was ranked eighth in the banking league in terms of customers (after the Big Five, the Royal Bank of Scotland and Yorkshire Bank).

<sup>951</sup> "Co-op Bank wooing more top customers", *Manchester Evening News*, Tuesday April 25, 1978 : 20.

<sup>952</sup> Table: Growth record Co-operative Bank

End-year	Number of current accounts	Consolidated total assets (£)
1963	135,000	178,308,256
1972	215,554	282,740,000
1973	231,483	325,688,000
1974	251,398	291,762,000
1975	273,961	330,760,000
1998	/	5,539,400,000
2002	/	8,687,600,000

<sup>953</sup> The UK has four banks in the Top 25 world banks, and remains well ahead of the other Europeans in key aggregate indicators. However, in terms of profitability (return on capital), Belgium leads the Europeans with a 32% return on capital, ahead of Sweden (29.5%), the UK, Spain (25.3%), France (23%) and Germany at the bottom with 13.6%.

<sup>954</sup> Another form of encouragement was given to owner-occupation by MacMillan in 1954 when he reached agreement with the BSA on a form of guarantee to enable 95 per cent of advances to be made on houses valued at up to £2,000 and built after 1918 ; and 90 per cent advances on houses valued at up to £2,500 and built either before or after 1918. The guarantee was tripartite, any losses resulting from the building society having made a larger than normal advance being shared equally by the Government, the local authority and the society. In the following years, the two schemes were merged (Ashfort, 1980 : 146-147)

<sup>955</sup> Building societies have no equity capital as such, but over 95 per cent of their liabilities are to the personal sector in shares and deposits constituting short-term placements withdrawable on demand or at fairly short notice. Share certificates confer membership on the holder and are issued on demand to shareholders, who receive a

fluctuating interest rate on these shares rather than a profit dividend. Depository funds, however, confer creditor status on their holders and in view of this they rank before shareholders in the event of dissolution. Usually the interest coupon is a quarter per cent below the share rate. These liabilities enable building societies to make house purchase advances. Over 80 per cent of the combined assets of societies are advanced to the personal sector through mortgage advances exclusively for house purchases, while the balance is held in government securities and liquid assets (Black and Stafford, 1988: 41-42).

<sup>956</sup> Apparently, building societies have also been reluctant to change mortgage rate, because of the administrative costs of notifying each mortgagor individually

<sup>957</sup> Competitors' interest in providing mortgage loans was first sharpened on 6 February 1966, when the Chancellor of the Exchequer announced that lending to finance housebuilding would be regarded as a priority category for bank advances (Wadsworth, 1973: 444).

<sup>958</sup> By 1989 the number of shareholders created through privatisation efforts had retreated somewhat to 9 million.

<sup>959</sup> This had, together with the Social Security Act of 1986, a rapid impact on the purchase of personal pensions (Morgan et al.1993).

<sup>960</sup> Thomas Sutherland also was the Hong Kong superintendent for the Peninsular and Oriental Steam Navigation Company.

<sup>961</sup> After the relocation of its domicile to London in 1991, and its takeover of Midland, HSBC proved best at countering US, Japanese and European competition in the City. The bank achieved that through a cautious investment banking strategy, alongside a diversified and risk-averse approach in its other business operations.

<sup>962</sup> Table: TSB regional branch network compared with regional population, 1985 (source: Robbie, 1992: 59)

	Branches		Regional population	
	Nos.	%	Million	%
<b>Scotland</b>	258	18	4.7	8
<b>Yorkshire, Lancashire, the North</b>	532	33	15.0	27
<b>Midlands, Wales, Eastern England</b>	410	25	14.3	26
<b>South East &amp; West Country</b>	320	20	19.7	36
<b>Channel Islands &amp; Northern Ireland</b>	63	4	1.7	3
<b>UK total</b>	1,610	100	55.4	100

<sup>963</sup> This contrasts sharply with the success of TSBs. In face of rampant inflationary pressures in the 1970s, TSB customer balances started declining rapidly. The number of savings accounts – bedrock of TSB growth – declined after 1974. Growth in investment accounts somewhat compensated for this plateauing and decline of savings accounts. Yet, from a peak of 10 per cent in 1965, TSB's market share of personal liquid assets in the UK had declined to 5.1 % in 1981. Deregulation of the financial services sector and high interest rates in the early 1970s had not helped the TSB at all – especially since the bulk of TSB assets were in low-yielding government securities. Compared to building societies in particular, TSB deposits increased slowly. Even when interest rates declined during the 1980s, TSB market share dropped; to little more than 3% by the mid-1980s (Robbie, 1992 : 52-57).

<sup>964</sup> (Internal Paper, 19; cited in Kynaston, 2001: 439). And, according to the Banker "the habits of the last decade..should be well and truly buried". Over the next three months the clearing bankers signified their willingness to accept the thrust of the proposals, while managing to persuade the Bank that building societies and savings banks should not be protected from competition for deposits (Kynaston, 2001: 439).

<sup>965</sup> When the attempts of various trade unions to mobilise membership amongst the building society employees failed overall, unions such as the CIR criticised the anti-trade union views of the managements of building societies...Building Society managements were advised to accept unionism wholeheartedly, not remaining neutral in stance as to appear in opposition to collective representation...the societies were also advised to become far more professional in the personnel and industrial relations function to allow subsequently for union recognition on a sound footing (Swabe and Price, 1983: 18).

<sup>966</sup> Home ownership grew from 55 % of the population in 1980 to 64 % in 1987. By the time Margaret Thatcher left office in 1990 it was 67 %. However, the number of public houses built went down to 35,000 in 1990 from 170,000 in the mid-1970s, with most of these built by housing associations rather than councils. 1.5 million council houses were sold by 1990, by 1995 it was 2.1 million

<sup>967</sup> For instance, on a television chat show in May 1983, the Chief General Manager of the Abbey National Building Society rather desperately claimed that building societies were the "highest form of socialism".

<sup>968</sup> Eric Holmes, Managing Editor of the Building Societies' Gazette in *Bankers' Magazine*, 1973 Vol. CCXV: 218-219.

<sup>969</sup> "Banks and the public", *Institute of Bankers*, 1981: 1.

## 12 COMPARATIVE DISCUSSION & CONCLUSIONS

### 12.1 Summary chapter

The main aim of this study was to develop a “republican settlement” theory of economic success. This theory holds that a firm’s long-term success hinges on its ability to contribute to a democratic settlement based on republican principles. Such settlements are conducive to the geopolitical success of the nation-state(s) to which the firm is affiliated, and with which it shares a critical relation. In this chapter, I elaborate on this theory by summarising the historical narratives of chapters 4 to 11 in eight core propositions; propositions on geopolitical, national and firm dynamics. (Each proposition is introduced by P + number, e.g. P1, P2, ...). I first concentrate on those propositions relating to the geopolitical and national levels of analysis (12.2). Section 12.3 follows up with a comparative discussion at the level of analysis of firms.

### 12.2 Propositions at the geopolitical and nation-state level

*P1: CONTINUED NATION-STATE REQUIRES THE TIMELY RENEWAL OF REPUBLICAN SETTLEMENTS AND TRADITIONS OF DEMOCRATISATION*

In chapters 4 and 5, I described the coming into being of republican settlements combining two rivalling types of traditions of democratisation since early republican times: respectively Regent and Orangist traditions in the Dutch Republic, Whig and Tory traditions in England. These settlements were reinvented over and over since their beginnings in the sixteenth and seventeenth centuries, through the eighteenth, nineteenth, twentieth and twenty first centies.

#### *a) Republican settlements*

With each settlement successive champions of each type of tradition have consolidated their willingness to accept that, ultimately, only a settlement incorporating elements of both rivalling camps could provide their nation with a sustainable form of geopolitical success. As a result, contestability and rivalry between established and outsider groups became increasingly institutionalised and pervasive phenomena in England and the Netherlands. What is more, to ensure that the elements incorporated in a settlement from either type of tradition would not be overly corrupted by the rivalling side, successive champions have increasingly embraced the principle of “freedom of domination” – by any particular actor or interest. For instance, Dutch Anti-revolutionary Protestants at the turn of the twentieth century accepted that turning the Netherlands into a unified protestant nation was an impossible dream. Rather than needlessly antagonise Catholics, or worse, leave the country’s geopolitical position at the mercy of communist populism, Anti-Revolutionaries preferred to revive the principle of living-together-apart. This principle ensured that each circle would retain a measure of autonomy and would remain free of domination by other denominations.

Also, successive champions in England and the Netherlands from the first republican settlement onwards have come to accept the need to both separate and reconnect State, economic and civic affairs. In other words, successive English and Dutch leaders have recombined the liberal “art of separation” – negative liberty or exit from

collective regulation of economic affairs, and the communitarian “art of connection” – positive liberty or a collective civic voice in economic affairs, by means of State intervention if necessary.

In sum, it may not be historically opportune to contrast English and Dutch success models on the basis of essential liberal versus communitarian features – i.e. the dichotomy exit/negative liberty versus voice/positive liberty.<sup>970</sup> While such contrasting features are undoubtedly present in contemporary discourse, digging deeper in history teaches us that the English and Dutch share similar rivalling traditions – Whig versus Tory traditions; and Regent versus Orangist traditions. These two sets of rivalling traditions are the republican precursors of contemporary liberal and communitarian discourses. But they are not just precursors. Settlements between these rivalling traditions imply the incorporation of a third type of freedom: the republican freedom of non-domination. This type of freedom involves the impossibility to dominate others, and the possibility of rivalry and dissent. And since early republican times it has been at the heart of English and Dutch national prosperity.

In conclusion, reinventing the Dutch and English success models requires not the attainment of respectively new communitarian and new liberal heights. Rather, it depends on the ability to reinvent republican traditions and settlements; and in the capacity to adapt such reinventions to ever more complex and interconnected geopolitical and domestic realities.

#### ***b) Traditions of democratisation***

Distinctions in terms of territoriality and personality, minority and consensus, economic and social democratisation dynamics cut across the Dutch and English historical contexts; i.e. Dutch and English traditions of democratisation. Content distinctions, on the other hand, are very relevant. For instance, both the English tradition of neutrality and Dutch tradition of proportionality entail the necessity to ensure the State and Establishment are seen as non-preferential vehicles of the general interest, so as to pre-empt calls for revolutionary intervention. To effectively execute these traditions both the English and Dutch rely on bodies that straddle the boundaries of the public and the private. Beyond these similarities, the difference content-wise is that the English historically have drawn more on “neutral” bodies – i.e. third-party advisory committees and a civil service that is neither associated with special interests, nor clearly incorporated in the State. The Dutch, by contrast, have relied on a State administration and self-regulating associations that serve the public interest by explicitly embracing special interests – proportional to their importance in the polity at large.

Even then, the obligation to adapt to foreign traditions may appear to blur differences in content. For instance, with the incursion of the US “Council of Wise” tradition after WWII (see p. 260), English and Dutch traditions seemingly have converged somewhat. The Council of Wise tradition prescribes extra-parliamentary decision-making by third party councils of wise men and experts. This tradition appears closer to the English tradition of neutrality. To adapt to the increasing geopolitical pre-eminence of the Council of Wise tradition, Dutch leaders after WWII have invented institutions such as the Social-Economic Council and the Central Planning Bureau; institutions with characteristics contiguous with the US tradition. This apparent convergence notwithstanding, differences in content remain between English, Dutch and US traditions. To be effective, the wise men and experts leading English and Dutch extra-parliamentary vehicles still need to be guided by the respective traditions of neutrality and proportionality, be it less in terms of visible and more in terms of actual logics of decision-

making. The same story goes for the European Union. Its predecessor, the European Community adapted to the pre-eminence of this US tradition, by inventing its own council of wise, the European Court of Justice. Yet, compared to the US Supreme Court, the archetypical Council of Wise, the European Court of Justice (ECJ) is guided in its rulings by a much more pronounced confederal reality. The balance between personality and territorial principles is very different in a European Union of nation-states (Sbragia, 1993: 28). Furthermore, the ECJ has been guided by the mutual recognition principle since 1979, not the US efficiency axiom<sup>971</sup> (Freyer, 2006; see chapter 10, p. 305-306).

*P2: THE HISTORICAL RELATION BETWEEN A LANDMARK SETTLEMENT AND A NATION'S GOLDEN AGE PROVIDES LEADERS WITH A SIMPLE SUCCESS MODEL*

In trying to renew settlements, leaders are primed by their historical interpretation of how a landmark settlement produced their nation's "Golden Age". By reimagining the historical relation between a landmark settlement and subsequent geopolitical success, leaders create a simple success model to enact their renewal projects. After all, the historical resonance and sense of continuity provided by landmark settlements points to a road of lesser resistance for change initiatives in popular opinion, and a way to simplify political, civic and economic complexities. Obviously, this is not just a matter of interpretation at one given point of time. As generation after generation of leaders engages with renewal projects, interpretations of a success model gradually become institutionalised, setting a nation-state on a more or less path-dependent track – at least if path-dependency is interpreted as a process of reinventing solutions to problems that repeat themselves with increasing degrees of complexity over time.

This institutionalisation process is not unproblematic. The simple success model associated with a nation-state's Golden Age typically is shorthand for a deceptively long and complex process. Leaders' poor historical insights can engender the creation of a black box between historical causes and effects. As demonstrated in chapters 4 and 5, the Dutch and English success models emerged as the synthesis and geopolitical apogee of successive, partial settlements spanning more than three centuries. Complicating interpretations of historical causes and effects, the Dutch and English success models would not have consolidated if it were not for a succession of happy accidents (see p. 52 and 65). All this points to the importance of the notion of unintentionality or fit-of-absentmindedness in any formulations of Dutch and English success models.

To recapitulate my findings in chapters 4 and 5, I found the following formulations of the Dutch and English historical success models to be most accurate and consistent.

The Dutch success model is one of "*Dutch nonconformism*": reinforce local privileges and traditions by pioneering a low-cost and pragmatic geopolitical vantage point; a vantage point conducive to the unintentional spill-over of the benefits of dominant international standards, techniques and agreements.

The English success model, by contrast, is one of "*Anglican nonconformism*": reinforce English traditions and liberties by pioneering a qualitatively sounder national vantage point; a vantage point conducive to unintentional foreign imitation and transformation by virtue of the international openness of the City of London.

The Dutch success model is typical for a small nation that historically has achieved geopolitical success disproportionate to its size, by virtue of a favourable

geopolitical position and a pragmatic openness to international spill-overs. The English success model, by contrast, is typical for a large nation that has experienced world leading success on the basis of immigrants trying to qualitatively differentiate their new home country's traditions from those of their former mother countries. That is, without falling back in isolationism, by virtue of a city-state whose central role in international trade proves impossible to foreclose.

Devoid of historical process insights about causes and effects, successive generations of leaders can easily misinterpret history in their urge to rapidly recreate a semblance of the successes of the past. Worryingly, they can misinterpret and simplify their countries' historical success model to an extent that causes and effects are actually reversed in the chain of reasoning, and the role of happy accidents is entirely slighted.

This begs the question under what conditions leaders can successfully reinvent their nation-state's historical success model. Based on my findings in chapters 6 to 11, I identified the following conditions, as elaborated in propositions 3 to 7.

Reinvention is successful the more the following conditions are fulfilled:

- P3: Traditions of democratisation and settlements are reinvented in a way sufficiently adapted to pre-eminent geopolitical traditions
- P4: Interpretations of pre-eminent geopolitical traditions and settlements have to appear sufficiently different from home-grown traditions to avoid confusion
- P5a: Reinvention is more effective when grounded in consciousness of a failed relation between state and nation
- P5b: It is necessary to create supra-national settlements and traditions to counter the dominance of emerging foreign traditions
- P6: There is enough consciousness of the pivotal role played by "happy accidents" in an historical success model
- P7: Up-and-coming leaders go against the grain in periods of high modernity and reinvent habits associated with landmark settlements

*P3: REINVENT TRADITIONS AND SETTLEMENTS IN A WAY SUFFICIENTLY ADAPTED TO PRE-EMINENT GEOPOLITICAL TRADITIONS*

After WWII, the pre-eminent geopolitical traditions from the English and Dutch perspective derived from US foreign policy. As the "shield" of US traditions of democratisation (see p. 222), US foreign policy after WWII served the worldwide expansion of the following traditions: City monetarism, Council of Wise democracy, pluralism, happy mediocrity and Real Whig voluntarism. In table 12.1, I juxtapose Dutch, English and US traditions.

As the Netherlands and England, the United States developed a tradition of *City monetarism*. This tradition is grounded in North Eastern City merchants' historical efforts to increase their financial wealth and gain a higher status away from "arbitrary" political and fiscal intervention – by the British Crown.

More than this first tradition, the tradition of *Real Whig voluntarism* differs significantly from its Dutch and English counterparts – pacification (p. 53, 55) and Anglican voluntarism (p. 68). As the other US traditions, it was first developed by English Puritans, first in the English Commonwealth and later in the Eastern colonies of North America. English Commonwealth men in the US were known as Real Whigs

(Robbins, 1959: 2-20), contrary to the Whigs that stayed in England after the Restoration and Glorious Revolution. The latter gradually relinquished their “Real” or puritan stock in favour of an Anglicisation process. All Whigs to some extent believed in freedom of thought, tolerance, and religious liberty. Yet, much more than Anglican Whigs, Real Whigs believed in Christian doctrines such as: “All men are invested by God and nature with certain alienable rights and privileges”. Also, Real Whigs had far more missionary objectives. They argued that, ultimately, the natural rights of English Commonwealth men should be extended “to all mankind”. They also believed passionately in the improvement of the world through education – a secular education in name, yet imbued with Christian moral virtues in practice. In the eyes of Real Whigs the worst form of national corruption was that of “luxury”. The highest virtue, by contrast, was the combined application of economic and political citizenship by autonomous, self-directed individuals (Foner, 1998: 55; Hatch, 1989; Marsden, 1980; Watts, 1987). This explains the uniquely North American association of individual property and the right to vote as the best way to spread virtue, combat corruption and expand liberty.

**Table 12.1: A juxtaposition of Dutch, English and US traditions of democratisation**

Dutch traditions	English traditions	US traditions
City monetarism	City monetarism	City monetarism
Living together apart	Anglican voluntarism	Real Whig voluntarism
Pacification	Secular Anglicanism	Happy mediocrity
Proportionality	Neutrality	Pluralism
Orangist democracy	Anglican democracy	Council of Wise democracy

The US tradition of “*happy mediocrity*” (see p. 222) emerged during the American Revolution as the North American antidote to corrupt European realities of class and religious divisions, as well as income inequality (Conner, 1969). The story goes that, faced with an “alien European imperialism in 1776”, leaders of the American colonies realised they shared an exceptional pattern of “seamless” democracy (Brown, 1955: 5, 19, 167, 295). Benjamin Franklin, the “first American” (Brands, 2000), led the way in amplifying this pattern, by declaring immigrants’ willingness to Americanise more virtuous than the maintenance of religious and cultural roots. He invented and glorified the term “happy mediocrity” to express the desirability of a secular, middle class society that could overcome European tendencies of both religious extremism and class rigidity (Carlson, 1975: 5-7). Ultimately, the republican ideal of happy mediocrity became the cradle of middle class consumerism, business school education and other movements of middle class egalitarianism and consumerism such as “McDonaldisation”.

The tradition of *pluralism* (p.222) to some extent counterbalances the assimilation imperative of the tradition of happy mediocrity. Pluralism has been universalised by post-

WWII political scientists as a theoretical archetype applicable to world-wide manifestations of interest group politics and other expressions of democracy. In reality, it is shorthand for a very idiosyncratic North American experience. In the US, the historical coincidence of evangelical beliefs with the idea of an expanding frontier has resulted in a tradition that maintains the inferiority of State centralisation to the democratic capacities of the « marketplace of ideas » (Foner, 1998). The radical anti-State nature of the tradition of pluralism throughout the centuries has been energised by a continuous inflow of immigrants in the US. As members of a “nation of immigrants”, incumbents and newcomers alike have sought refuge in a commitment to their native religion as a way to “display their commitment to American values while maintaining their ethnic distinctiveness”, independent from State interference (Bruce, 1996: 135).<sup>972</sup>

Beyond the appearance of administrative weakness and fragmentation, however, the US State has actually always been normatively strong, exerting great pressure on a plurality of private actors to abide by its grand rules of the game (Dobbin and Sutton, 1998).<sup>973</sup> This brings us to the last US tradition: *Council of Wise democracy*. This tradition is the linking pin between US State regulation and pluralist democratic capitalism. The tradition has its origins in the constitutional founding fathers’ distrust of the “inflationary” instincts of the masses; especially their belief that popular participation in government had increased to an extent incompatible with the practice of free government (Dietz and Hamilton, 1960: 131). In order to provide the disciplined propertied classes with constitutional safeguards against the irrationality of the masses, the founding fathers ensured a central place in the democratic system for institutions governed by a “council of wise men” – in their own image. A council in which American leaders of the revolution “grouped themselves with Theseus and Moses, Lycurgus and Romulus as founders of a ‘new order of the ages’” (Pocock, 1988: 56). The most notable US examples of this “Council of Wise” tradition are the Supreme Court and the Federal Reserve – which was explicitly modelled on the Supreme Court. These institutions historically have been perceived by US citizens as essential to the preservation of their liberties and the fight against national corruption.

In regulatory terms, the Supreme Court throughout the twentieth century was pivotal in reconciling the founders’ constitutional ideals with present and future geopolitical developments. This has allowed the North Americans to keep revelling in the dream of American exceptionalism, i.e. the dream that their Republic would be able to escape the historical cycle of growth and decay that had typified European republics. Indeed, the Court’s continuous recasting of “commerce”, “contract”, and other constitutional and legal code words facilitated the adjustment of republican ideology to the rising influence of liberal capitalism (Freyer, 1994: 30). In reinventing history along the way, the Supreme Court ultimately has been instrumental in convincing North American citizens that the US from its birth has acted as the supreme defender of the “liberal tradition”. This provided the US government with a decisive geopolitical advantage during the 20<sup>th</sup> century. For the liberal tradition provided a much more universal front to foreign policy aims than the US’ actual republican traditions. After all, the liberal tradition had already been granted world-wide legitimacy by virtue of the success of the Pax Britannica – the nineteenth century liberal front for “England and Empire” foreign policy ambitions. Even better, taking up the mantle of promoter of liberal-democratic capitalism allowed the US government to distance itself from the legacy of European imperialism, while pushing an expansive “Empire of Liberty” agenda (see also p. 371).

In sum, one of the most persistent geopolitical misconceptions is that, contrary to Western European countries that are bogged down by the Old Corruption of feudal traditions, the liberal tradition is the main foundation of US democratic capitalism (Hartz, 1955). In effect, the liberal tradition is no more than a geopolitically opportune amalgamation of particular North American traditions into one “end of history” narrative. Although its influence was unmistakable, the “liberal tradition” narrative was not the product of a far-sighted Supreme Court. On the contrary, just like in England – with the unintentional emergence of a British international gold standard<sup>974</sup>, it emerged by fit-of-absentmindedness and *by default*. A domestic compromise – the US “New Deal” or “politics of productivity” settlement (see p. 196), by fit-of-absentmindedness was copied abroad and internationalised as the best way to “liberate” other nation-states from their domestic crises. Once US leaders realised other nation-states were using the US model to liberalise their own economies from “Old Corruption”, they – hesitantly at first – reified it as an intentional liberal tradition; eager as they were to use it as the geopolitical shield of altogether less “liberal” US traditions. Undoubtedly, US leaders hereby learnt from British precedent. Expanding the Empire of Liberty abroad on the basis of the North American need for “more territory for its own commercial development or its own security” was bound to invoke much resistance, both domestically and abroad. Yet, as in Britain, “the more altruistic justification of empire” – the argument based on a “nation's duty to the world” – could not be so dismissed so easily (Porter, 1968: 186).

In sum, more than any other tradition, “Council of Wise” democracy contributed to the end of history doctrine of “liberal capitalism” which the US so successfully pushed after WWII, and most forcefully from the 1980s onwards with the Washington Consensus. That is, the doctrine of the virtues of a “weak administrative state” and regulatory bodies of wise men and experts guided by an efficiency mantra.

*P4: PRE-EMINENT GEOPOLITICAL TRADITIONS AND SETTLEMENTS  
RESONATE WITH HOME-GROWN TRADITIONS, BUT APPEAR  
SUFFICIENTLY DIFFERENT TO AVOID CONFUSION*

*a) City monetarism*

At first sight, both Dutchmen and Englishmen should have felt blessed with the coming to geopolitical prominence of rather contiguous US traditions. Most notably, the Netherlands, England and the US share a similar tradition of City of monetarism. After all, the baton of pre-eminent financial world centre was passed from Amsterdam to London to New York in a spirit of continuity through the modern Western age. Thus, while Dutch central bankers maintained privileged relations with their English counterparts during the nineteenth century, they increasingly built Atlantic connections with the Federal Reserve from the turn of the twentieth century. As such, they were able to take a first-mover stake in the British gold standard system as well as its US successors. Ultimately, these privileged connections with London and New York served to revive the declined position of Amsterdam – home of the Dutch tradition of City monetarism – in the century leading up to WWII.

Some argue that the City of New York eclipsed the City of London as financial centre of the world as early as the post-WWI period (Wilkins, 1999). After WWII, the new hierarchy became undisputable. By the 1960s, the City of London had been demoted to an offshore financial centre or spin-off of New York, welcoming US, Japanese and European

banks that fled their more regulated home markets. The City of London brilliantly fulfilled its role of vehicle of “dollarisation” of world finance – in a triumvirate with New York and Tokyo. The British government and Treasury formalised the new hierarchy in the late 1970s and 1980s, synchronising the British turn to monetarism and the regulatory Big Bang of the City with their senior US partners – the US government and Federal Reserve.

In terms of avoiding confusion between foreign and home-grown traditions, the Dutch were in a more favourable position than the English. Every semblance of Amsterdam as a world financial centre had long disappeared by the 1950s, removing much nostalgia of past imperial greatness, and allowing the Dutch to recreate their historical success model of Dutch nonconformism with a clean sheet. The Dutch Bank, Ministry of Finance and commercial banks let go of their primary Atlantic gaze of the pre-WWII period, and increasingly hedged their bets between the offshore market of London, and Frankfurt-driven monetary developments. Pragmatic stands with a big “P” in the Dutch case. The Dutch-driven acceptance of the 2007 NYSE bid for Euronext – against the wishes of Frankfurt-based EU officials – exemplifies this.

Confusion is all the more likely, given the US tradition of City monetarism’s intimate connection with the other four US traditions – Council of Wise democracy, Real Whig voluntarism, pluralism, and happy mediocrity. Individually, some US traditions appear more contiguous to English traditions – Real Whig voluntarism and Council of Wise democracy, some closer to Dutch traditions – pluralism and happy mediocrity. To anticipate what follows, beyond first appearances this closeness has turned out to be devoid of much substance in both the English and Dutch cases. Nevertheless, the behaviour of especially most British, but also many Dutch opinion leaders during the last decades suggests not everyone was aware of this.

***b) Real Whig voluntarism and Anglican voluntarism***

At first sight, the tradition of Anglican voluntarism is closer to the tradition of Real Whig voluntarism than its Dutch counterpart, pacification. Given the Real Whig tradition’s origins in emigration from Britain and the subsequent American Revolution, this may have been a poisoned gift, however, as Thatcher-led practice revealed. Not only are North American Real Whigs federalists, contrary to their Anglican counterparts: the Real Whig principle of voluntarism emerged from the ideal of an “equal federal union between the different parts of the British Isles and a partnership or family compact between Britain and her distant colonies”. Much more than Anglican voluntarism, Real Whig voluntarism associates the creation of a Commonwealth of propertied individuals with the extension of the suffrage. Indeed, in the US the right to vote became the main emblem of citizenship and liberty after the American Revolution.<sup>975</sup> This is also how one should interpret the North American predilection for shareholder capitalism, i.e. as a manifestation of a Commonwealth of economic citizens with voting rights. Paradoxically, the greater influence of Real Whig voluntarism after WWII in the UK has sent electoral turnout figures plummeting (p. 328). This evolution was accelerated by Thatcher’s shareholder democratisation programme and her curtailing of political access points. At the end of the day, the UK was left with the worst of both worlds: the meaningfulness of the suffrage plummeted, and the country did not become a shareholder democracy after all.

The tradition of Real Whig voluntarism also provides one part of the explanation of why the US government, even today, can periodically wage an invasive foreign policy based on the ideal of the extension of English Commonwealth and suffrage principles. In comparison, British imperial aims were far less premised on assimilation (Lieven, 2002),

although at their apex they occasionally relied on the Cromwellian notions of a civilising mission, a sense of cultural superiority over native people, and the doctrine of terra nullius. In spite of this major difference, the UK eagerly participated in the latest US wars of geopolitical domination and assimilation, in the name of continuity between the US doctrine of liberal interventionism – the expansion of the Empire of Liberty (p. 238, 349) – and the British tradition of “unilateral liberalism”.

Furthermore, the US tradition of Real Whig voluntarism stands for an evangelical belief in liberty guided by moral absolutes, in particular industry, sobriety and self-discipline. How did Thatcher succeed in associating English national character with Real Whig voluntarism, a tradition of “moral absolutes”, in a country in which the great majority of the population favours gradualism and abhors moral absolutism.<sup>976</sup> That is, in a country in which traditions of secular Anglicanism and neutrality had long reigned supreme? After all, did many self-appointed “Real Whigs” not leave England in the seventeenth and eighteenth centuries for this very reason, namely the dominance of secular Anglicanism, Anglican democracy, gradualism, and the lack of support for moral absolutes?

*c) Thatcher's reinvention of history*

First, Thatcher became a cheerleader of the vested interests of the middle and lower middle classes.<sup>977</sup> Borrowing from the US tradition of happy mediocrity and the ideology of middle class consumerism, her government brushed aside the home-grown tradition of neutrality. For instance in terms of housing, the government gave up all semblance of tenure neutrality in the 1980s, privatising swathes of council housing and stigmatising those who did not live the dream of a property-owning democracy. Also, Thatcher declared that Britain was an integral part of a regional sphere of English-speaking nations that embraces « liberty, Christianity, industry and modernity » (Bennett, 2004; MacFarlane, 2000; Veliz, 1994). Eager to get rid of the perennial feeling of national decline and rediscover its « pathfinder society » role, a majority of British popular opinion came to embrace the idea that the « Anglosphere » historically had always been the one to provide the prototypical institutions of modernity. Finally, Thatcher applied a longstanding North American solution to the problem of balancing moral absolutes with British patriotism. She combined a patriotic discourse of “assimilation”<sup>978</sup>, i.e. a discourse of “Anglicisation” through the promotion of middle class individualism, egalitarianism and consumerism, with a focus on the need to tolerate immigration for the sake of liberty and economic growth.

This last point brings us to the different historical ways in which the English and North Americans have come to deal with immigrants. Although once all parts of Europe - including the British Isles – were riddled by streams of immigrants, no modern European country has convincingly embraced the identity of « nation of immigrants ». In England, pressures of Anglo-conformity managed to neutralise the diversity of immigration by the late Middle Ages. With the triumph of traditions of Anglican democracy and secular Anglicanism in the seventeenth century, England definitively ceased to view itself as a nation of immigrants, although the City of London's openness to foreigners precluded overly isolationist tendencies. In the United States, by contrast, pressures of Anglo-conformity – « happy mediocrity » - have not managed to destroy its nation of immigrants identity as of yet. While such pressures did manage to reduce American diversity to an English ethnic essentialism (Kauffman, 1999; see p. 407)<sup>979</sup>, the simultaneous counterbalancing role played by religion has provided an escape valve, an outlet for

pluralism. Thus, one major reason why Americans are religious is precisely because “their churches offer them a way in which they can display their commitment to American values while maintaining their ethnic distinctiveness... [including] ethnic exclusion” (Bruce 1996: 135). This is not the case in England, where religion has been usurped by Kings and the State ever since the Anglican rupture from the Catholic Church.

As we saw in chapter 7, the tradition of Anglican voluntarism has been episodically contested and revived in England by nonconformist varieties of “voluntaryism”, in the seventeenth and nineteenth centuries. Yet, contrary to English voluntarism, whose revival in the nineteenth century proved short-lived, the evangelical roots of Real Whig voluntarism in the US have been reinforced with each generation since the 1870s (Marsden, 1980). More generally speaking, evangelical revivals have been a continuous, enduring feature in US history, contrary to England, where secular Anglicanism has been the norm.<sup>980</sup> I have noted that the religious resilience of US citizens provided the lifeblood of anti-State pluralism in the US – and of the latter’s country’s ability to present itself as a nation of immigrants. What explains the world-wide success of the US tradition of pluralism after WWII, even in the absence of corresponding religious resilience abroad? For one, US multinationals naturally exported US traditions of democratisation such as happy mediocrity and neutrality abroad. In addition, the Federal Reserve implicitly supported expansion by US banks into foreign city-states such as London. Also, by proxy with their country’s nation of immigrant image, some US multinationals and banks from the 1970s increasingly presented themselves as harbingers of a culture that transcended nation-state boundaries – a company as the ultimate melting pot of nations and cultures.<sup>981</sup> Third, there was the turn to monetarism – and assumptions of non-State intervention – from the late 1970s onwards; and the spread of this ideology across the West and later developing countries. Four, most Western countries shared a contiguous traditions of democratisation, that could easily be interpreted as a variety on the same plurality melody. Finally, the revival of evangelical non-profit organisations after WWII, and the fiscal privileges attributed to such organisations from Eisenhower through Reagan and Bush, helped export the tradition of pluralism to developing countries; most notably by blurring the neat distinction between public and private US initiatives. The blurring of public and private responsibilities became even more pronounced with Reagan’s advocacy of monetarism, the launch of a new global discourse of liberal capitalism and democracy, and the policy to cut back government funding to non-Christian organisations with a quasi-public function.<sup>982</sup> As a byproduct of this evolution, the tradition of anti-state pluralism has been spread across more and more US-sponsored international organisations.

By contrast, the wave of anti-Statism which Thatcher piggybacked on to push her privatisation programme was rooted in something entirely less functional<sup>983</sup>: the pathology of interest group politics (Grant, 2007). This pathology throughout the 20<sup>th</sup> century signalled an increasingly fraught relation between State and nation, premised on the historically unresolved contradiction between Anglican paternalism and nonconformist libertarianism in England. Post-WWII “paternal socialism” was a failed attempt to address class politics; Thatcher’s neo-liberalism and Blair’s “third way” failed attempts to escape them. The most deplorable effect of the lingering pathology of interest group politics has been the gradual weakening of the effectiveness of the home-grown tradition of neutrality since WWII (see p. 347).

#### *d) Council of Wise democracy*

The very different historical interpretations of the Council of Wise tradition by English and North-American leaders demonstrate how different nation-states can evolve different versions of the same original tradition to accommodate their own particular problems. The oldest Saxon kings relied on the Witan, or counsel of the wise, gathered at royal behest, mainly in the south of the kingdom. Arguably, the English stayed closest to the original Saxon tradition. Indeed, it is from these Saxon precedents of the Witan and elected kingship that English Common law and Parliament evolved to grow certain autonomy from the monarchical state (Colls, 2002: 14, 17). The US founding fathers, by contrast, invented a more legalistic and extra-parliamentary variety on the Council of Wise theme, relying on the authority of the Supreme Court – and later the Federal Reserve. There were two reasons for this divergence, the first to do with the best way to deal with the dangers of monetary inflation, the second relating to North American leaders' anti-Europeanism. The founding fathers feared the inflationary tendencies of the masses most, and sought to create extra-parliamentary bodies of wise men to counterbalance the masses' possible excesses (Lippmann, 1920). In England, by contrast, debasements by Kings were most dreaded, and Parliament was seen as the ultimate safeguard against royal excess.

Furthermore, contrary to the US, the UK's constitutional principles have never been formalised in republican ideals of "commerce", "contract" or "anti-trust" (Freyer, 1992b).<sup>984</sup> This partly explains why the "politics of productivity" has not been accepted as voluntarily and enthusiastically in the UK than in the US. England has never had the equivalent of the US Supreme Court to transform political issues such as class struggle into problems of efficient output and anti-cartel legislation. Even at the height of British Empire, the rallying cry "National Efficiency" did not become a resounding success. The other side of the politics of productivity, anti-cartel legislation, historically has also lacked majority support in Britain and was only sparingly introduced before the 1980s (Freyer, 1992a). In many ways, the imposition of strict anti-cartel legislation constitutes a breach of the English tradition of neutrality, which proclaims non-intervention and a reliance on voluntary mechanisms as much as possible.

The gulf between English and US interpretations of the Council of Wise tradition widened even more in view of the anti-European motivations of many North American opinion leaders; in particular their view that "America was created as an antidote to Europe" (Garton Ash, 2003). One of the most loathed aspects of European society was its hierarchical system of ranks and classes. The idea of England as a "Commonwealth that embraces all classes, sections, interests in a common life" (Bentinck, 1917: 137) did not appeal at all to most North American leaders. In England, the Establishment, through Parliament or other avenues, promised to protect the natural balance and rightful aspirations of the different classes and ranks. This notion of a natural, self-regulating justice ultimately provided the basis for the tradition of Anglican democracy – an informal, non-legalistic variety on the Council of Wise theme. The US founding fathers, by contrast, abhorred the notion of ranks and classes, preferring the notion of a seamless, egalitarian democracy. Simultaneously, they realised the necessity of an extra-parliamentary body sheltered from the masses' worst excesses. Hence, their more legalistic and extra-parliamentary, yet officially class-free interpretation of the Council of Wise tradition. Clearly, it is true that American politics has long lacked the English ideology which defines the political situation in terms of class and guides interests in the direction of class solidarity (Beer, 1956 : 21). Nevertheless, the US in actual practice also engages in class

integration mainly through the unassailable authority of the Supreme Court, but also through modest welfare provision. In view of the greater vigour of anti-Statist ideology, and the greater Constitutional fear of lower than upper rank usurpation, welfare mechanisms have been framed more within a perspective of welfare capitalism rather than welfare statism (e.g. Tone, 1997: 7, 253).

*e) Decline of Anglican democracy and resurgence of class*

In expressing their horror for the excesses of “society” and a self-sufficient class system, Thatcher and Blair have distanced themselves from the tradition of Anglican democracy, and promoted US-style regulatory vehicles in all matters economic, social and educational. Unfortunately, in their urge to copy the US classless ideology, both prime ministers, in particular the first, have severely aggravated income inequality in the UK. Even more worrying, by default of a renewal of the Anglican democracy tradition, social mobility has plummeted in the UK. In sum, doing away with the Anglican democracy tradition, and the notion of natural justice within a class system is not only impossible in the UK – more even than in other Western European countries (p. 346). It is counterproductive, as figures of social mobility and inequality demonstrate. And it seems to go against the grain of popular opinion. The 2006 British Social Attitudes surveys corroborate this: 57% of adults in the UK consider themselves working class, while according to official labels a majority of citizens is middle class.<sup>985 986</sup> That is because, instead of religious resilience, pluralism in England has been linked with class resilience, independence-craving trade unions and employer organisations. Fairness, on the other hand, has long been associated with a tradition of active class-neutrality, cherished by the civil service. Indeed, in England “tax politics is class politics” (Webber and Wildavsky, 1986). Where in the US there is broad popular support for lower taxation, in the UK support has only ever been very strong among the lower middle classes. Not surprisingly, weakening the class-neutralising role of the taxation system and civil service has resulted in a system that has actually widened the income inequality and mobility gap in the UK (Dilnot and Stark, 1986; IFS, 2007<sup>987</sup>; Hills, 2005).

Different from North Americans, English people historically have held highly elastic and often contradictory views about their social classes, seeing them at times as small and endangered and, at other moments, as strong and confident. Similarly, popular opinion alternated periods in which membership of the middle class was the embodiment of virtue with periods in which membership was not a commendable thing. English popular opinion – as fragmented as it may appear – at the moment seems to be going through a period in which middle class membership and the “classless society” – with its virtues of egalitarianism and individualism – are perceived as less commendable than the virtue of being part of the working classes. The polarisation of individual and regional income inequality patterns in England also seems to be contributing to an “us” versus “them”, “productive” against “parasitic”, “virtuous” against “vicious” reaction from occupational members of the middle classes. This is another explanation for the latter’s retreat into a working class membership. In sum, one lesson of English history is that periods of revolution generally are accompanied by a revival of Anglican democracy – as demonstrated in the aftermath of the Commonwealth, the 1832 Reform Act, the movement of voluntarism<sup>988</sup>, and Thatcherite and Blairite “classless” pretensions. The desire to integrate all classes and ranks in a concept of English society ultimately always prevails because over the long term that vision “has been the most pervasive and persuasive” (Cannadine, 1999: 172).

Let us now turn to the similarities between US and Dutch traditions, in particular the US traditions of pluralism and happy mediocrity, and the Dutch traditions of living-together-apart and pacification.

*f) Happy mediocrity and pacification*

The traditions of happy mediocrity and pacification at first sight share some common traits. The happy mediocrity tradition embodies the US founding fathers' preference for a secular, middle class society that can overcome European tendencies of both religious extremism and class rigidity. The Dutch pacification tradition shares its US counterpart's belief that rivaling factions should resolve their differences by depoliticising them and finding a pragmatic middle ground, even if a mediocre one in the eyes of the more critical citizens. This last characteristic, which is encapsulated in the Dutch success model of "Dutch nonconformism", probably also explains the early success of business schools in the Netherlands. Finally, because the tradition of pacification only works insofar as the lower ranks can identify with their elite representatives, the latter have to engage in inconspicuous, pragmatic behaviour to be democratically acceptable. This behaviour, particularly the quality of always staying "on speaking terms" sometimes conveys the impression that the Dutch are a classless people. Yet, ultimately, to be effective, the tradition of pacification is linked to the use of elitist decision-making bodies, and the very European tradition of Orangist democracy. Thus, in spite of classless appearances, there is ample historical evidence of the Dutch predilection for pacification through esoteric, elitist problem-solving methods. Nevertheless, confusion has been rife; undoubtedly the influence of the happy mediocrity tradition in the Netherlands has been pervasive. Since the hesitating creation of a middle class consumer culture in the 1960s and 1970s, Dutch consumers have become real believers, as testified by the burgeoning practice of withdrawing a large part of housing equity to finance consumer goods – a practice popular in the US and the UK, but not the rest of Europe.

Still, there is ample proof of the continuing relevance of the home-grown tradition of pacification, certainly in comparison with the declined Anglican democracy tradition. For instance, Dutch regulators and banks agreed consumers to some extent should be protected from themselves by means of fixed rate mortgage packages – with a term of 20 or 25 years. Tellingly, the share of fixed rate mortgages in the Netherlands fluctuates between 84.5% and 95%. In the UK this figure is between 17.7% and 36% (Low et al., 2003). Furthermore, the governor of the Bank of England has in vain called for mortgage prices to be part of the official inflation. These prices present the biggest expenses for many households, but are not included in the Consumer Price Index. In a clear sign of the weakening of Anglican democracy, however, the Monetary Policy Committee has refused to do this, causing particular difficulty to the Bank of England in its bid to protect the long-term interests of vulnerable mortgagees and consumers.

The privatisation of pension funds provides another comparative example of this trend. While the Dutch government greatly encouraged the privatisation of pension fund contributions in the 1980s, such private contributions have actually been made semi-compulsory, pre-calculated in wage payments. Also, Dutch consumers received fiscal incentives to hedge their bets between pension funds, savings and mortgages. English consumers, by contrast, have received much less governmental and fiscal leadership, inducing them to invest a disproportionate amount of their savings portfolio in housing, to the detriment of pension fund investments and savings.<sup>989</sup> Indeed, since the 1980s there has been a much smaller connection between housing inflation and a decline in savings

and pension fund investments in the Netherlands than in the UK. In the UK the withering away of building societies' fiscal advantages and protection against carpet bagging has induced a boom in short-term housing speculation and a plummeting savings ratio (Farlow, 2005: 21). At the end of the day this means English consumers are less protected from the present "credit crunch" and housing crisis than their Dutch counterparts.

*g) Living-together-apart, pluralism and neutrality*

The Dutch living-together-apart and US pluralism traditions also bear some resemblance, in that they both are associated with resilient religious differences. Yet, where a "nation of immigrants" identity buttresses the dynamism of the latter, it is a profound sense of local particularism that supports the former. Thus, in both cases, religious resilience is more a symptom than cause. Nothing can testify more eloquently to the actual incompatibility of the living-together-apart and pluralism traditions than the remarkable coincidence that the former's effectiveness started to decline when the latter became more in vogue in the late 1960s. Indeed, the start of the relative decline of the living-together-apart tradition came with social-democrats' calls for an end to local particularisms, in particular the "undemocratic" system of self-regulating pillars. Inspired by North American practice, social-democrats announced the start of a new era of pluralism and direct "democratic" justification (p. 281). Ironically, the decline of the living-together-apart tradition is one of the reasons why the Dutch during the last few decades have struggled with the integration of immigrants (p. 294) – the very lifeblood of the US tradition of pluralism. Indeed, where before the 1970s, tolerance of immigrants' diversity had been more pronounced in the Netherlands than in England by virtue of the living-together-apart tradition, roles arguably have been reversed in favour of England and the UK in the last two decades (Bagley, 1973).<sup>990</sup>

Although both the US and England share a "plurality" electoral system, Thatcher's coalition of political, civic and business supporters did not seem to realise to what the extent the nature of pluralism in the US and England has been and remains different. I have already pointed out how class resilience rather than religious resilience provides the lifeblood of pluralism in England. There are other differences. In the US, the historical coincidence of evangelical religious ideas with the idea of an expanding frontier, an empire of liberty, has been much more meaningful than in the UK. This has resulted in a US tradition of pluralism that maintains the administrative and organisational inferiority of the State to the democratic capacities of the « marketplace of ideas ». Beyond the appearance of administrative weakness and fragmentation, however, the US State has actually always been normatively strong, exerting great pressure on a plurality of private actors to abide by its grand rules of the game (Dobbin and Sutton, 1998).<sup>991</sup> In sum, the real strength of the US State tradition is its application of a normative personality principle.<sup>992</sup> This contrasts with the more administratively centralised, « neutral » Anglican State tradition (Dyson, 1980), mother of all territorial and fiscal centralisation traditions in Europe. Interestingly, the French State tradition shares the "self-contained normative order" aspect with the US, and the administrative centralisation aspect with England (cf. Laborde, 2000).

Lacking its US counterpart's normative strength, the British State has been unable to mimic the politics of productivity settlement that laid the pre-WWII basis of US geopolitical pre-eminence. In other words, the British State has been unable to combine systematic repression of radical elements with the voluntary commitment by the Unions to the principle that labour should not seriously threaten the control of private capital over the

production process (Bowles and Gintis, 1982:64-68; 1986:55-62; Rupert, 2000: 437-440). Both US and British trade unions and employer organisations are seen to perform similar “functional” roles (Almond, 1958), namely to act as a counterbalance to the growing role and increasingly centralized nature of the State (Beer, 1969). The historically fragmented and highly normative nature of the US State, however, has given US unions a much harder target, generally inducing compliance and consensus-seeking on their part. The relative normative weakness of the British State regarding interest group politics, by contrast, on many occasions has given UK unions a perfect target for non-compliance and rebellion. The infamous “winter of discontent” at the end of the 1970s finally proved a bridge too far for the political classes. It gave them the perfect excuse to cast unions convincingly in the role of “pathologically dysfunctional” social partners and anti-national “hotheads” (Grant, 2007; Hay, 1996).<sup>993</sup> Effective as it may have appeared regarding inflationary targets (cf. Pissarides, 2003); the marginalisation of trade unions and employer organisations ultimately has aggravated the crisis of participation in the UK. That is, contrary to the US, where compliance was more willing and inclusive, based as it was on endogenous normative traditions, rather than a discourse of inevitability about globalisation and the role of English-speaking nations as “shock troops of modernity”.

***h) Empire of Liberty: a very different “liberal tradition”***

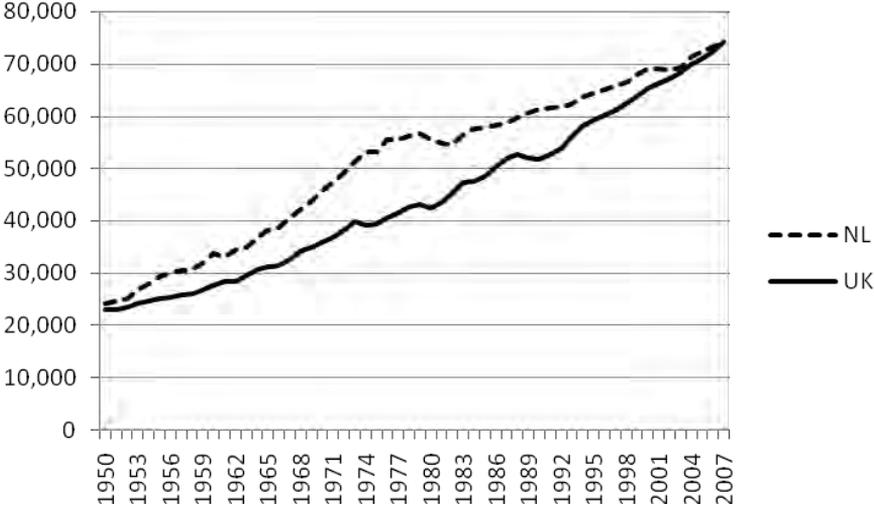
Finally, and most confusing of all, what England and the US supposedly have in common is a liberal or “Empire of Liberty” tradition (cf. Tucker and Hendrickson, 1990), a tradition which hails the “genius of the Anglo-Saxon race” when confronted with real or imaginary threats.<sup>994</sup> As long argued by Emerson (1846: 434), Gossett (1953: 82), Horsman (1981: 146), Ross (1984) and Foner (1998: 77), this “genius” refers to an amalgamation of Anglo-Saxon superiority – hostility to France, a racial definition of nationality<sup>995</sup>, and manifest destiny – into a single account of these nations’ mission. But even here there is a major difference between England and the US: the latter defines its “Empire of Liberty” and “universal nation” claims on an entirely different historical claim. US constitutional mythology defines the US as the “great nation of futurity” (O’Sullivan, 1839: 426): a nation whose “birth was the beginning of a new history...which separates us from the past and connects us with the future only”. As argued above, the US’ manifest destiny “from the beginning defined itself morally in terms of anti-Europeanism”, most notably anti-Britishness. America was “the land of the future versus the Europe of the bankrupt past...a country of innocence, virtue, happiness and liberty as against a Europe of vice, ignorance, misery and tyranny” (Vann Woodward, 1991: 3). *This US foundational perspective is much closer to its French equivalent of “universal rationalism” than to English historical and evolutionary beliefs.* Conservative accounts of the English nation stress the value of an historically evolved national culture, constructing an idealised ‘imagined community’ from Magna Carta to D-Day (Anderson 1984). Reverence for parliamentary sovereignty is the lynchpin of this vision. In this view, the British Constitution was conceived not as a set of rules constructed on rational first principles, but as evolving organically over centuries, self-selecting the very best from national traditions and British moral sensibility<sup>996</sup> (Baker et al., 2002: 402).

***i) Mixed comparative picture***

To summarise the preceding sections, I have encountered a mixed comparative picture. The English have benefited more from their traditions’ apparent contiguity with the US’ liberal and City monetarism traditions, and the contiguity of their success model of Anglican nonconformism with the US success model of “American-Anglican

nonconformism”. Most tangibly, the City of London has disproportionately benefited from the deregulation of capital markets initiated by the United States and the expansionist fiscal policy of the early Reagan era, both in terms of outward and inward foreign investment. By virtue of the tremendous growth of the City, the UK by 2007 had almost managed to catch up with the Netherlands in terms of GDP per person employed (see figure 12.1). Also, since the UK’s decisive turn away from monetary Europe in 1992, its closeness to US policy has become more consistent and paid off more, reducing the volatility of annual GDP growth rates to an impressive extent. That is, more than in the Netherlands which has stayed closer to the struggling European social market economy (figure 12.2). Of course, this could all change with the current US-centred economic and monetary crisis, given the UK’s greater geopolitical dependence on that country.

**Figure 12.1: GDP/person employed NL and UK (1950-2007)**  
*(Source: Total Economy Database, January 2008<sup>997</sup>)*



While the Dutch may have benefited less from the resonance of (apparently) contiguous traditions, they have been better at avoiding confusion between home-grown and US traditions. Although it certainly is true that, from the 1970s onwards US traditions were increasingly invoked as a high modernity model by "liberal" and "evangelical" party and employer organisations, and to a lesser degree even the social-democrats from the late 1980s onwards (Kroes, 1991: 6). Overall, one could say the Netherlands’ clear identity of a small nation that can only punch above its weight in the EU, and a steadfast belief in the historical success model of “Dutch nonconformism”, have protected Dutch “high modernists” from themselves.

At the end of the day, the model of Dutch nonconformism prompted less ideological and universalist interpretations of the US liberal tradition than common in Westminster. Indeed, while English elites have proved prone to believe in the superiority of unilateral liberalism<sup>998</sup>, Dutch elites have comfortably held on to the primacy of their

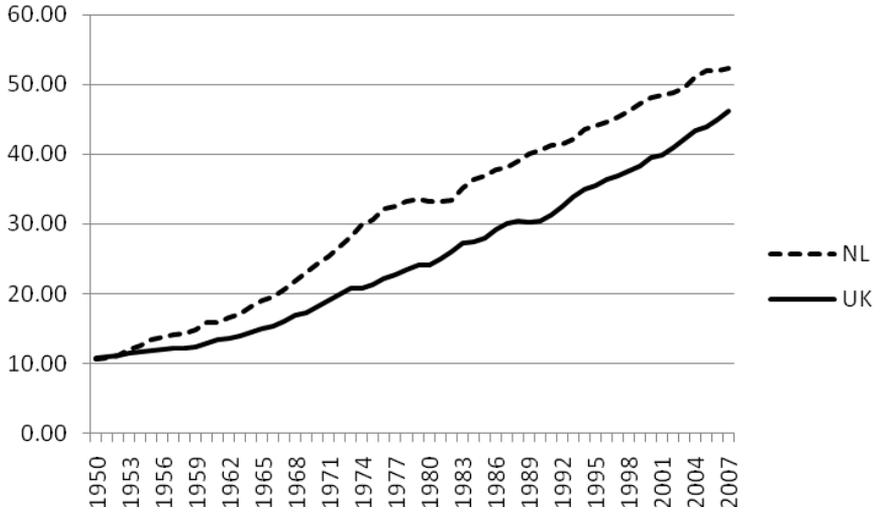
local traditions; that is while welcoming the international spill-overs of US-led and EU-facilitated globalisation efforts (Van Elteren, 1998; Phillips, 1985: 29-30).<sup>999</sup> Maybe this explains why, contrary to figures of GDP per person employed, the divergence between Dutch and UK GDP per hour worked has not diminished much during the last decades (see figure 12.3).

**Figure 12.2: Volatility Real GDP Growth Rates NL & UK** (yearly change in %)  
*(Source: Eurostat, 21 July 2008)*



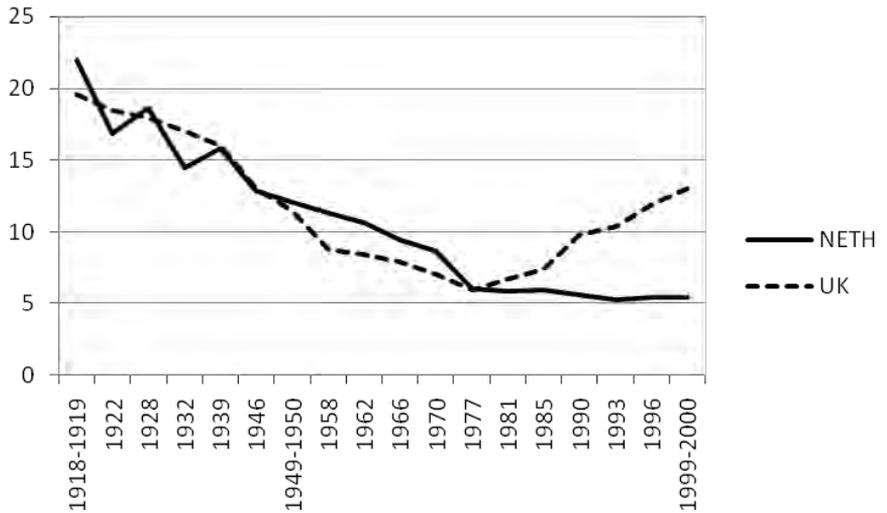
**Figure 12.3: Comparison GDP/hour worked NL and UK (1950-2007)**

(Source: *The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008, <http://www.conference-board.org/economics/><sup>1000</sup>*)

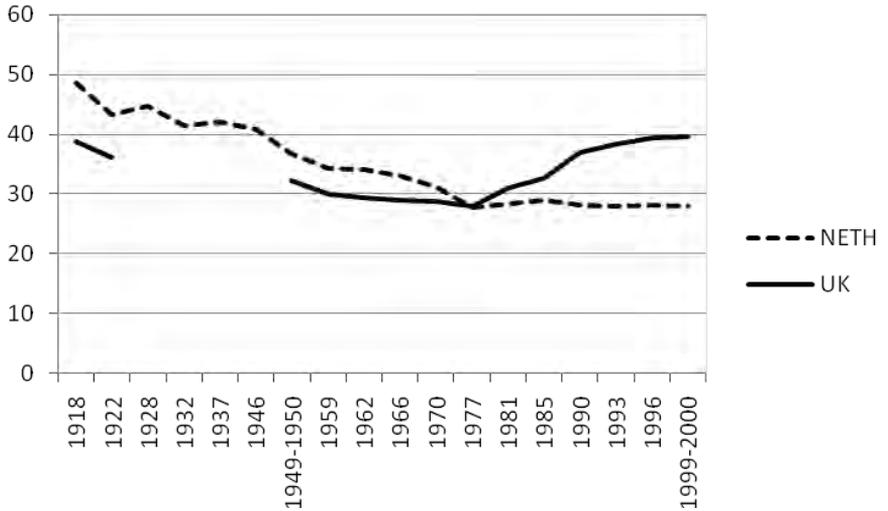


**Figure 12.4a: Comparison total gross income share of top 1% in NL and UK**

(Source: *Atkinson and Salverda, 2005: 897-900, Tables 2NL and 2UK; data for the UK between 1922-1946 estimated from Wilterdink, 1984 : 269, Table 26*)



**Figure 12.4b: Comparison total gross income share of top 10% in NL and UK**  
 (Source: Atkinson and Salverda, 2005: 897-900, Tables 2NL and 2UK; data for the UK between 1922-1946 estimated from Wilterdink, 1984 : 269, Table 26)



**Table 12.2: Comparison regional income inequality NL and UK**  
 (2004 PPS, EU27=100) (Source: Eurostat 23/2007 - 19 February 2007)

	<i>GDP per inhabitant, 2004 PPS</i>	<i>GDP per inhabitant, 2004 PPS, EU27=100</i>		<i>GDP per inhabitant, 2004 PPS</i>	<i>GDP per inhabitant, 2004 PPS, EU27=100</i>
<b>UK</b>	26,455	123	<b>Netherlands</b>	27,946	130
<i>North East</i>	20,897	97.2	<i>North</i>	25,922	120.6
<i>North West</i>	23,189	107.8	<i>East</i>	23,703	110.2
<i>Yorkshire &amp; Humber</i>	23,101	107.4	<i>West</i>	30,762	143.1
<i>East Midlands</i>	24,528	114.1	<i>South</i>	27,000	125.6
<i>West Midlands</i>	23,677	110.1			
<i>East of England</i>	25,364	118.0			
<i>London</i>	40,542	188.5			
<i>South East</i>	28,580	132.9			
<i>South West</i>	24,971	116.1			
<i>Wales</i>	20,606	95.8			
<i>Scotland</i>	25,264	117.5			
<i>Northern Ireland</i>	21,292	99			

Remarkably, by default of an ideology of unilateral liberalism, Dutch people seem to be less worried about economic globalisation trends than their British counterparts. Thus, international surveys demonstrate how British individuals only rank 16<sup>th</sup> in their opposition against trade protection, the same rank as for US citizens (Mayda and Rodrik, 2002: Table 1)<sup>1001</sup>. By contrast, Dutch people overall rank first.<sup>1002</sup> One reason for this overall lesser fear of the consequences of economic liberalisation may be the different lessons of income inequality and social mobility experienced by different social classes in different parts of the Netherlands and the UK. In figures 12.4a and 12.4b, I compare the evolution of income inequality in the Netherlands and the UK during the 20<sup>th</sup> century. The UK overall performed better up to the 1980s, when historical differentials between the two countries were more than reversed. Indeed, in terms of both social mobility and income inequality, post-WWII England actually did much better than the caricature of Thatcherite meritocrats allowed for. As a matter of fact, the post-1950 period produced a greater degree of inter-generational mobility than the post-1980 period (Blanden et al. 2004; Breen, 2004). From the 1980s onwards, the UK followed the lead of the US, where both social mobility and earnings equality increased sharply after the Great Depression, through WWII to 1953, but decreased steadily afterwards, with a dramatic increase in annual earnings concentration since the 1970s (Kopzuck et al. 2007).

Income inequality in the UK was acerbated by several factors, including its sharply delineated regional nature. By the 1980s, remaining regional disparities in the Netherlands had largely disappeared and would not reappear anymore. By contrast, the UK – in particular England and Wales – during the 1980s and 1990s experienced the most severe inequality upswing of all “developed” countries (see p. 356). In table 12.2, I compare patterns of regional income inequality in the UK and Netherlands for the year 2004. While the Netherlands only has one sub-region, Flevoland in the Eastern part of the Netherlands which performs below par with a GDP/inhabitant percentage of 96.4, England – discounting Wales and Scotland – not only has 10 sub regions but also one entire region that perform below par.<sup>1003</sup>

In the next sections, I discuss two other conditions to the successful reinvention of a country’s success model: a sufficient consciousness of failure, needed to comprehensively reinvent the relation between state and nation; and the ability to leverage supra-national state relations as a geopolitical translation mechanism for pre-eminent foreign traditions. During the discussions I shall touch upon some of the above points.

*P5a: CONSCIOUSNESS OF A FAILED RELATION BETWEEN STATE AND NATION*<sup>1004</sup>

*P5b: CREATE SUPRA-NATIONAL SETTLEMENTS AND TRADITIONS TO COUNTER THE DOMINANCE OF EMERGING FOREIGN TRADITIONS*

The post-WWII period provides the litmus test for propositions 5a and 5b. During this period, the Dutch success model became increasingly dependent on the emergence of a European social democracy model – based on the new success model of the Federal Republic of Germany (p. 209). While discussing propositions 5a and 5b I shall therefore not only compare the Netherlands and England, but also the Federal Republic of Germany and England.

### *a) The benchmark of the Federal Republic of Germany*

Nations can gain the geopolitical recognition of being a legitimate state, but can also lose this legitimacy, as happened with Germany during WWII (Schwab, 1981: 54).<sup>1005</sup> Germany is a most interesting case which I shall briefly discuss to gauge the English experience of success and failure in the post-1976 period. The post-WWII emergence of the Federal Republic exemplifies how a nation can reinvent itself and its relation with a State, to gradually regain geopolitical leadership in the process. A significant part of the resources and inspiration needed for the rebirth of a West-German nation-state initially were provided by a US keen to extend its geopolitical influence sphere and enlarge its commercial and cultural hinterland to Europe. In this regard, the Federal Republic provides an interesting comparative case with the UK, which in the 1980s to some extent functioned as a launching platform for renewed North American “Empire of Liberty” aims. In retrospect, being the launching pad of the New Right’s Anglosphere, and benefiting from a large chunk of the budget and trade deficits of the United States in the 1980s to a great extent fuelled the recovery of the UK economy (Gamble 1988: 98; Gifford, 2006: 469). The comparison is all the more relevant since, just like in England, “the specter of lost international competitiveness” has continually haunted West German policy making in the post-WWII period (Wadbrook, 1972: 63).

To summarise quickly, the Federal Republic in the period 1948 to 1973 did a better job at reinventing its success model than England in the period 1976 to 2008 for several reasons. The first two reasons relate to causes referred to in section ii – the resonance of pre-eminent foreign traditions’ *and* their differentiation from home-grown traditions. Summarised shortly, the US New Deal and its “politics of productivity” settlement resonated much with pre-WWII German traditions and settlements, in particular so-called “Ordoliberalism”. Similarly, Reagan’s monetarism, his Empire of Liberty aims and the Washington Consensus resonated with England’s imperial past and cross-party ideology of unilateral liberalism. The difference is that in Germany, Ordoliberalism and its associated notion of “Rationalisierung” emerged in the 1920s and 1930s as a contiguous, yet clearly distinct alternative for the US politics of productivity – and associated US notions of liberal democracy and scientific rationalism. In England, by contrast, differences between North American and home-grown traditions remained less elaborated, not just because of their apparent contiguity, but due to two additional reasons: a comparative lack of consciousness of the failed relation between the British Imperial State and its constituent nations; and an inability to create sufficient supra-national buffers and translation mechanisms for US traditions.

After WWII, the German nation was in urgent need of modernised traditions of democratisation. In a bid to invent a new, more pacific nationalism, West German leaders were anxious to separate new nation-building efforts from old German Empire influences – both regarding economic policy and the monopoly of violence. What the West German nation needed after WWII was a republican settlement<sup>1006</sup> amenable to the rebirth of a geopolitically legitimate State – hence the creation of the Federal Republic of Germany. While many West Germans still longed for a revival of the Bismarckian, “qualitatively total” state of the 1870s, they were less keen on reviving heavily discredited notions of “Führertum” (Rüstow 1932:70) and state interventionism. All the more so, since West German leaders had to reconcile their own traditions and desires with those of the US occupiers. One condition for North American support was that the young Federal Republic would be integrated in Atlantic military collaboration structures (Van der Pijl,

1984: 145) – to avoid West Germany gravitating into the geopolitical influence sphere of the Soviet Union. West German leaders actually welcomed US insistence on its inclusion in the NATO (1955) – although many privately expressed reservations about the US Empire of Liberty aims. Another condition was the adoption of federal parliamentary principles akin to those prevalent in the US. Finally, West German leaders also had to take into account the wishes of other European nations such as France. They came to the realisation that reviving their nation-state aspirations could best be achieved by linking them to a new European identity and territorial level. Thus, a combination of consciousness of the deep failure of the German imperial state, and new nation-building aspirations provided an important impetus to the birth of a fledgling European state in the 1950s and 1960s.<sup>1007</sup> Of course the new West German identity and European traditions would take time and a measure of geopolitical stability to become institutionalised. Fortunately, the Pax Americana would provide exactly this (Eichengreen 1996; Maier 1987:153-184).

In the first post-WWII decades, West German leaders successfully circumvented other types of US domination, in particular the wholesale adoption of scientific rationalism and the “liberal tradition”. The Germanisation of Americanisms such as “scientific rationalism” had started timely, in the 1920s, under the German denominator “Rationalisierung”. Rationalisierung had an all-encompassing quality that “scientific management” lacked (Steinrotter, 1929; Brady, 1974: 526-540). Thus the German Institute for Technical Labour Training<sup>1008</sup>, supported by much of German industry, advocated a distinctly German economy that would be rationalised and profitable; yet avoid Fordist mass production and preserve quality work. It promised to create workers who would be committed to achievement and productivity as well as to their “Beruf” and the firm – all this without the levelling dynamics of high wages and mass consumption (Nolan, 1994: 179).<sup>1009</sup> In Britain, by contrast, rationalisation remained “an empty word, the quintessence of abstractness” (Bowie, 1931: 7).<sup>1010</sup>

Also, during the Weimar Republic Germans had developed their own version of liberalism, Ordoliberalism, partly in response to the economic crises of the 1920s and 1930s. After WWII – in particular from mid-1948 onwards – Ordoliberalism would be reinvented as the “the quasi-official credo of West Germany’s economic policy” (Giersch et al., 1992:16). Since this credo was interpreted as a philosophy of State non-interventionism, the Federal Republic earned approval from the US occupying forces.<sup>1011</sup> Nevertheless, Ordoliberalism amounted to no more than a “liberalism by default” tradition (see chapter 8, p. 195). Before WWII, prominent members of the liberal Freiburg Kreis had demonstrated a pro-state orientation, but with a strong anti-parliamentary bent (Vorländer 1997: 6). In retrospect it is clear that in the concept of Ordoliberalism only “Ordo is necessary and absolute”; the liberalism part is “contingent and relative” (Nörr 1993: 13). Tellingly, « ordo » means inner order in contrast to « ordinato », which means externally imposed (Grossekettler, 1989: 43). In actual reality, self-imposed, voluntary order in both private and public enterprise, rather than privatisation in the name of efficiency, was the credo of the Federal Republic. Also, the Ordoliberal credo stood for the opposite of US interest group functionalism. The latter is premised on the assumption that interest groups act as a counterbalance to State centralisation tendencies, in particular the latter’s belief in its superior policy competence (Almond, 1958; Beer, 1969). By contrast, the “Freiburg imperative” adopted in the FRG assumed a State fit to reject the demands of special interest groups and ensure a principle of non-domination based a high level of

policy competence (Rieter and Schmolz, 1993: 104-7; Rittershausen, 2007).<sup>1012</sup> The credo of public-private voluntarism and non-domination eventually would be transplanted to the European Community in a more confederal form (Ebner, 2006: 216; Freyer, 2006: 245; Muller-Armack, 1998: 272-3; Watrin, 1979). Indeed, West German leaders ultimately would turn to Europe to build enough geopolitical critical mass for their post-WWII settlement. And to further differentiate their European settlement from that of the US, they turned to the “powerful myth of the ‘social market economy’ as a supposedly fundamental post-war political innovation” (Lehmbruch 1992: 33).<sup>1013</sup>

***b) Post-WWII England compared***

In comparison, the English nation after WWII neither acted from a clear consciousness of the failed relation between the British Imperial State and its constituent nations, nor in terms of the need for supra-national buffers and translation mechanisms for US traditions. While their continental counterparts started Germanising Americanisms as early as the 1920s – leading to the invention of concepts of rationalisation and Ordoliberalism, England after WWII failed to move beyond the rapidly ageing concepts of nationalisation, the imperial myth of universal liberalism, and a deep skepticism of the old German and French foes. Nevertheless, many of the factors that had successfully created a shared sense of British identity in the previous centuries were in secular decline (Colley, 1992b: 327). Far-reaching secularisation had eroded Britain’s “Protestant” identity since the turn of the twentieth century. Also, the decline of Empire quickly reduced the relevance of a common economic project that benefited citizens from the different nations. Furthermore, since WWI Britain effectively had become dependent on the US to uphold the liberal tradition in international trade matters. Finally, WWII was the last great collective project where all the peoples of the British Isles faced a common threat from a continental European foe. After WWII, Great Britain was definitively subjugated to the military reality of Pax Americana – the NATO and nuclear dependence. In spite of its increasingly hollow character, British patriotism nevertheless remained the legitimisation of the State (Kellas 1991, Seton-Watson 1977).

At the turn of the twentieth century, there had been a "moment of Englishness"; a brief resurgence of English nationalism caused by waves of North American and German nationalism, as well as a crisis of belief in the imperial mission following events in the Boer War (Kumar, 2003: 176). Yet, contrary to the United States and Germany, the search for English consciousness throughout the modern period has been perceived as a symptom of decline, rather than as a means to revival. In the best Whig “progress” tradition, which is content with nothing else but universal values, English leaders have long aspired to be a “beyond national character” country (e.g. Mandler, 2006: 242). Meanwhile, however, England’s geopolitical nemesis, the US, less bashfully has appropriated Anglo-Saxon national character and the “Anglican nonconformism” success model. In a remarkable bid of reverse colonisation, this usurpation started as early as the American Revolution and the constitutional foundation of the US. Indeed, in spite of its nation of immigrant identity, the United States has never been an exception to the rule that nations are formed by core ethnic groups that attempt to shape the nation in their own image (Kauffman, 1999: 449-450). By virtue of panoply of legal, educational and social tools of “Anglo-conformity”, immigrants have long been made to accept the myth promoted by Statesmen that American people were essentially English in ancestry (Brookhiser, 1991; Gordon, 1964: 89; Herberg, 1955: 34). While the English denigrated the anti-modernism of English nationalism, North

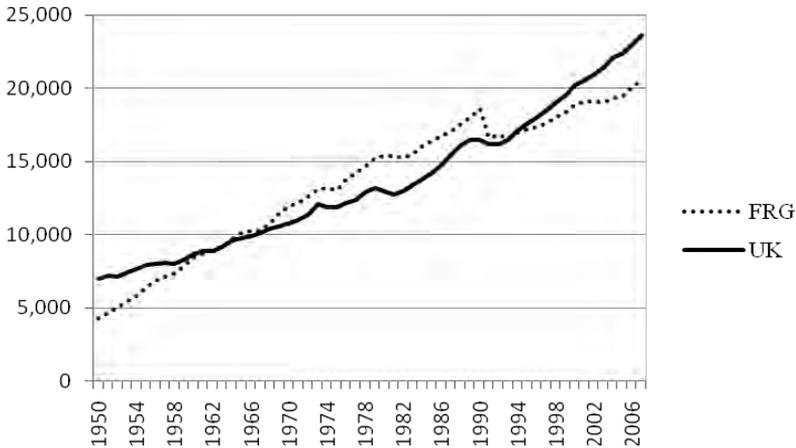
Americans defined their English ancestry – linked to assumptions of American English, American Liberty, and American Protestantism – as highly modern.

The Conservatives, Party of the Union, made a further error of judgement after WWII. Ignoring all signs that the days of the British Empire were numbered, they refused to constitute more federal links between the British State and its associated nations – in particular England and Scotland. Nevertheless, such federal arrangements were part and parcel of the West Germany success story: the new federal nation-state settlement definitively ended the need to unite the protestant Prussian region with the southern regions through a super-imposed imperial patriotism. The federal issue is especially relevant since the British Union was split by two north-south divides, not just one as usually acknowledged (p. 248). The first divide was between English regions, the manufacturing heartland and the old agricultural heartland. At stake here was the reinvention of English traditions of voluntarism and secular Anglicanism that could unite the entire country. The second divide was between the bulk of English regions and Scotland, the latter comprising much of the industrial periphery. The issue here was the lingering contrast between Scottish and English traditions. By default of a timely federal settlement, Scottish nationalism grew apace; contrasting itself with imperial English traditions (see p. 249). Meanwhile, the reinvention of English traditions remained subordinated to British priorities. To bind all constituent nations to the Union, the British State religiously guarded the financial and international autonomy of the City. For many centuries this autonomy had suggested a pacific way to secure Welsh, Irish and Scottish allegiance to Britain. Unfortunately, this actually aggravated Britain's north-south divides, in particular the first one, between English regions. Since the 1960s, London and its home counties have received a disproportionate share of all private investments, both in services and manufacturing skills, to the detriment of the other regions of England. Regional income equality levels in England, unseen in other OECD countries (p. 247, 350), were further aggravated by an overheating of the London housing market during the booms of the 1980s and 1990s. This has led to the additional problem of regional mobility trap<sup>1014</sup> (Murphy and Muellbauer, 1990) – a trap far less evident in other Western nations (Balchin and Rhoden, 2002: 275-276).

This brings us back to Thatcher's regime. Clearly, it did not induce a qualitative break with the Conservative Union legacy.<sup>1015</sup> On the bright side, her regime had positive quantitative effects; it halted the UK's geopolitical decline in terms of GDP per capita and GDP per hour worked (see Figures 12.5, 12.6a and 12.6b). Why? Arguably, Thatcher's greatest merit is that she increased the consistency with which English parties and groups embraced the unintentional consequences of WWI – the Empire's secular decline, New York's eclipsing of the City of London, and Britain's dependence on the US to uphold the liberal tradition in international trade matters. This earned the UK the privilege of being the launching pad of the US' monetarist turn and the recipient of the bulk of US and Japanese FDI in Europe. Consistency was increased further after Black Wednesday, and Britain's decisive turn away from European monetary collaboration. In line with the US, unemployment decreased very fast in the UK, and so did inflation. The German miracle, by contrast, since the late 1960s gradually turned into a textbook story of decline. A first blow to the *Wirtschaftswunder* had been the advent during the 1960s of a more ideological belief in the social facets of Ordoliberalism (Rittershausen, 2007), inducing more central State interventionism, and an imbalance in the precarious post-WWII success model.

Geopolitically, things took a turn for the worse in the late 1970s. The US dropped many elements of the “politics of productivity” settlement which the Federal Republic of Germany had long aligned itself with. The FRG was ill prepared for the US’ turn towards liberal monetarism. A new Americanisation of the German business system ensued which marginalised certain Ordoliberal principles (Hagemann, 2004). The strength of German republican traditions was weakened further in October 1990, when West Germany was reunified with its much weakened Eastern counterpart.<sup>1016</sup>

**Figure 12.5: GDP per capita FRG and UK from 1950-2007 (1990\$)**  
 (Source: Total Economy Database, 2008)



**c) Summary comparison FRG and UK**

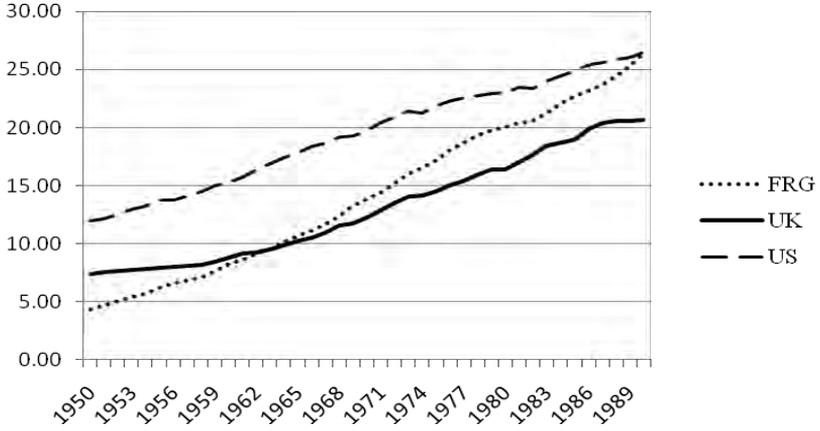
Clearly, the Federal Republic of Germany’s recovery after WWII was more successful than that of Thatcher’s and Blair’s UK. For instance, while the FRG’s GDP per hour worked gradually caught up with that of her post-WWII patron the US – to finally level at the end of the 1980s (figure 12.6a), no such evolution is evident with the UK and the US since 1976. What is worse, in spite of its geopolitical misfortunes, Germany’s performance in terms GDP per hour is still better than that of the UK, which has experienced a great deal of geopolitical good fortune in the last decades (figure 12.6b). All this points to a very imperfect reinvention of England’s historical success model. The UK’s successes – a fall in unemployment and inflation – have been achieved through a historically very strange settlement. In the name of unilateral liberalism, a North American efficiency doctrine has been adopted without a prior qualitative Anglicisation – comparable to the Germanisation of Americanisms. Thus the UK’s focus on cost-reduction and low-added value creation since the late 1970s (Delbridge et al., 2006) is typical of a small Western nation – or of a non-Western nation geopolitically dependent on the West.

Of course, in more qualitative terms, talk of the City of London as the premier global financial centre and basis of Britain’s Greatness has continued unabated.<sup>1017</sup> Yet, the City’s activities have not added qualitatively to England’s historical success model of

Anglican nonconformism. Depending on one's vantage point, the City's actual post-WWI role was that of imperial heir, or offshore market for Wall Street.

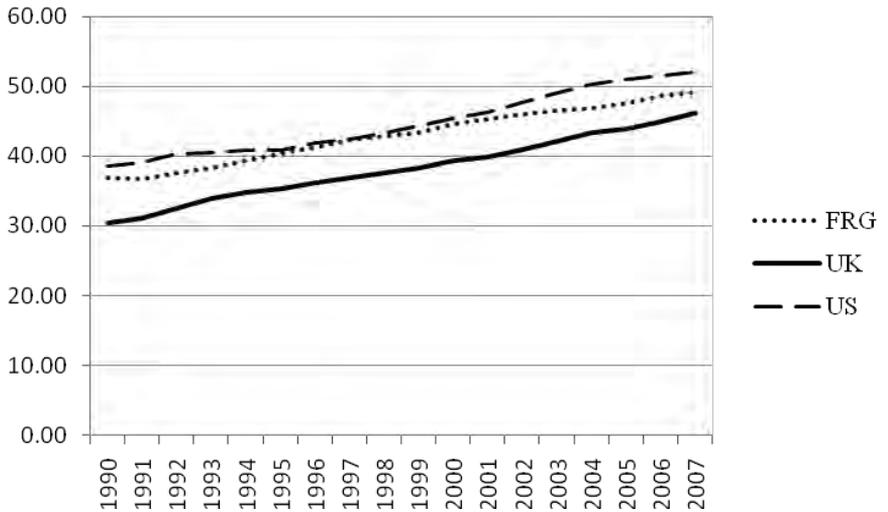
**Figure 12.6a: GDP per hour worked FRG, UK and US from 1950-1990 (1990\$)**

(Source: Total Economy Database, 2008)



**Figure 12.6b: GDP per hour worked FRG, UK and US from 1990-2007 (2007\$)**

(Source: Total Economy Database, 2008)



All this leads to a remarkable conclusion: *a failure to reinvent a modern relation between nation and State, and ongoing confusion about the role of the City has kept the English nation stuck in the middle between the geopolitical positions of imperial heir and small nation. That is, rather than enabling England to re-emerge as a leading nation organically, and by fit-of-absentmindedness* (see p. 69-71 for a discussion of the historical role played by fit-of-absentmindedness and happy accidents).

**d) Post-WWII Netherlands compared**

How does the Netherlands compare in this regard? The Netherlands was a very artificial nation-state at the end of the nineteenth century. As English national consciousness, Dutch national consciousness was not particularly alive. The English were somewhat split between a voluntarist northern camp and a voluntarist southern camp; yet, the British Empire united most English citizens. The Dutch, for their part were split between more ideological and regional camps. To make matters worse, especially the southern Catholics were not very attached to the Dutch Empire. Still, on impetus of the latter denominational group the Dutch State started accommodating a “multi-ideological” and “multi-regional” nationalism after WWI (see p. 90). English nonconformists, by contrast, were not able to seize the opportunity to do the same. Christian socialists – Anglicans who initially had some success in the North, were equally unable to create a united English consciousness. Thus, English nationalism remained firmly subordinated to British State patriotism. On the other hand, the emergence of a Dutch Green Front in the 1930s quickened the demise of the Dutch Empire. While the English reinforced the position of sterling in the vast Commonwealth markets, the Dutch were unable to do the same with the guilder in their much smaller colonies. In addition, the position of the City of Amsterdam was fatally weakened after the international financial crisis of the late 1920s and early 1930s, which meant the end of the Amsterdam prolongation market. The government’s belated abandoning of the Gold Standard in 1936 - five years after its English originator – also removed much credibility from Dutch Regent capitalism. The ravages of WWII provided the tipping point to the emergence of a deep consciousness of the failed relation between State and nation in the Netherlands.

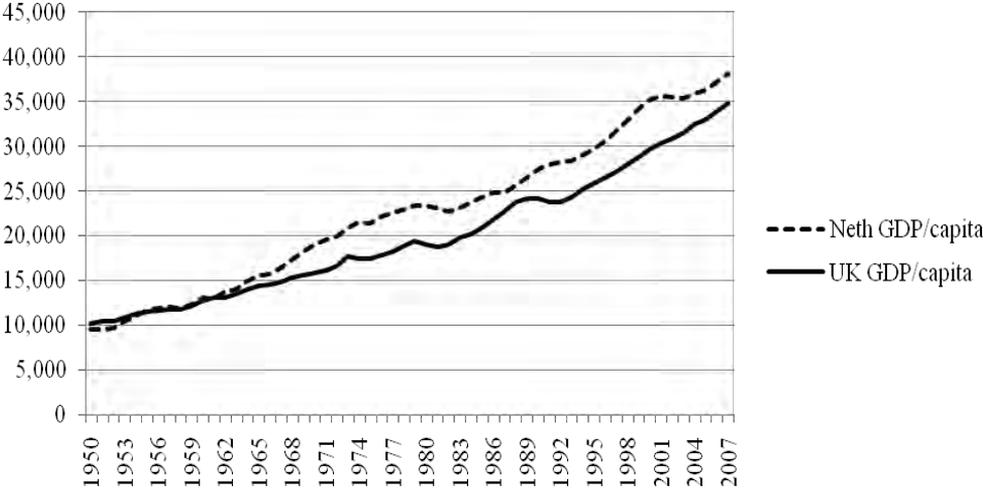
As geopolitical parameters changed drastically after WWII, an ability to start with a clean sheet was a major geopolitical advantage for the Dutch. The English did not develop this ability, even when Labour came to power. In spite of their resentment for some US traditions such as “happy mediocrity”, most English elites believed in continuity between the Pax Britannica and Pax Americana. The elites that came to prominence in post-WWII Netherlands, by contrast, harboured no such illusions, and sought to comprehensively reframe the relation between nation and State. The rapid demise of the last remainders of the Dutch Empire, and the sheer devastation of WWII changed the balance of powers in the Netherlands. This facilitated the emergence of a new settlement between State and nation, sometimes referred to as “low-cost consociationalism”, around which almost 100% of Dutch groups rallied. By the late 1950s, this settlement would give rise to a new Dutch national consciousness, which, in turn would go in search for a new type of State to promote its traditions and interests. This new consciousness greatly helped the Dutch State to punch above its weight in the making of the early State apparatus and traditions of the European Community.

Indeed, with world-state aspirations defeated, and Dutch Catholics and social democrats firmly in control, the Dutch government turned away from its former Atlantic priorities, and expressed its commitment to emerging Franco-German European ambitions.

To the better prepared and more dynamic belongs good fortune. Besides the visible benefits of opening Franco-German markets<sup>1018</sup>, the Dutch were served hand and foot by the emergence of a very contiguous West-German model. Figure 12.7 illustrates how Dutch GDP per capita caught up with UK GDP per capita in 1956, seemingly to leave it behind definitively from 1961 onwards.

Meanwhile, the discovery of natural gas allowed Dutch GDP per capita to race away from its UK counterpart at an accelerated pace in the 1960s and 1970s. Yet, as during the Dutch Republic’s Golden Age, the Dutch were unable to deal with this sudden “embarrassment of riches” in a strategic way; ushering in a period of political polarisation and an almost destructive embrace of a social-democratic civilisation myth in the 1970s. The UK’s period of polarisation came a decade later, with the Winters of Discontent, the final demise of Old Labour, and the arrival of Margaret Thatcher, new champion of liberal mythology and Anglican nonconformism. This coincided with a new stage of more confident US imperialism, and the launch of a new geopolitical strategy of monetary liberalism.

**Figure 12.7: GDP per capita NL and UK from 1950-2007 (2007\$)**  
*(Source: Total Economy Database, 2008)*



The Dutch reacted in the 1980s by attempting a wholesale renewal of low-cost consociationalism, and becoming the best EC follower of the Bundesbank’s monetary policy. While Germany experienced panoply of problems in face of the US turn away from the politics of productivity, the Dutch to some extent managed to reinvent the European social market economy myth – a variation on the Ordoliberal success model<sup>1019</sup> - in the 1980s and 1990s. Obviously this was no more than a pragmatic, small nation version of the West German success model. Essentially, the Dutch traded high labour productivity and low employment for low-productivity, high-employment growth, in a bid to ensure the viability of Dutch nonconformism, while accommodating the geopolitical monetarist turn to low inflation priorities. Thus, arguably there was a crisis of labour productivity growth

behind the “Dutch miracle” of the 1990s (Kleinknecht and Naastepad, 2002; Naastepad and Kleinknecht, 2004; SCP, 2000). This more critical argument was vindicated in the early 2000s by a cyclical counter reaction to the latent crisis. To compound Dutch problems, the economic crisis of the early 2000s coincided with a national identity crisis, in which the failure of European immigration policy came back to haunt the precarious balance between minorities in the Netherlands. Thus, instead of providing a geopolitical buffer, the EU in some regards actually aggravated problems of globalisation and immigration – an insight that contributed to the Dutch “no” in a 2005 European referendum. Yet, at the end of the day, the Dutch reinvention of low-cost consociationalism in the 1980s and 1990s seemed to have been effective enough to preempt any chances of the UK catching up in GDP per capita and labour productivity terms during the lean 2000s (see also figure 12.3).

*P6: CONSCIOUSNESS OF THE PIVOTAL ROLE PLAYED BY “HAPPY ACCIDENTS” IN AN HISTORICAL SUCCESS MODEL*

Original settlements are often misinterpreted by contemporaries. The latter often are aware neither of the time-lag between original settlements and actual geopolitical success, nor of the pivotal role played by unintentional consequences and happy accidents in transforming original settlements into a success formula. “Happy accidents” are dynamics that by fit-of-absentmindedness rather than design help leaders transform original settlements into a geopolitical blueprint for success.

The post-WWII Wirtschaftswunder exemplifies the role of happy accidents. The West German miracle was not principally down to the “honest efforts of a whole people who ...were given the opportunity of using personal initiative and human energy” (Erhard, 1958: 116). In so far as there was a miracle, it boiled down to the conjuncture of several favourable conditions (Abelshauser, 1983). These conditions unexpectedly helped transform original settlements – Bismarckian welfare arrangements, and pre-WWII Ordoliberalism and Rationalisierung – into a geopolitical success model. What favourable conditions or happy accidents were in play after WWII? During the war, particularly East German production equipment had been destroyed. Much of the West German pre-WWII industry base had been reserved. Furthermore, Western allies after WWII soon came to the insight that the post-WWI stick had not worked and a carrot – financial aid and political integration – should now be used. Also US’ efforts to open up commercial frontiers, and the emergence of the EEC gave West Germany ready access to international markets. Finally, an abundance of cheap, high-quality labour allowed West Germany to quickly restore its intangible productivity assets to peacetime use, while avoiding pre-WWII inflationary tendencies (Katzenstein, 1989).

Because consciousness of the pivotal role of happy accidents is often lacking, contemporary elites tend to misinterpret the nature of landmark settlements as intentionally liberal-utilitarian or communitarian. For instance, the West German success model became popularised as a « social market economy » as early as 1952. The post-WWII settlement was not altered for ideological reasons as long as it produced spectacular growth figures. Yet, a new more ideological generation of Keynesians took advantage of the first signs of trouble in the 1960s to push their ideas of more State managed growth (Rittershausen, 2007). By the late 1960s, the West German economy had gone from miraculous to mediocre (Giersch et. al, 1992: 125), making it less resilient to upcoming geopolitical

shocks in the 1970s. Why? The new social-democratic generation did not sufficiently recognise the « by default » character of Bismarckian and Ordoliberal welfare measures that the post-WWII Federal Republic had inherited. In effect these measures had been adopted precisely to pre-empt overbearing demands on the State and economy. Keynesians, however, launched more State centralisation and « managed growth » programmes in the belief this was the secret of the Republic's extraordinary success.

Similar lessons apply to the historical cases of the Netherlands and England. In chapters 4 and 5, I singled out the many elements of fit-of-absentmindedness that facilitated the emergence of Dutch and English traditions of democratisation, as well as these nations' respective geopolitical success models. More recently, a post-WWII comparison of the Netherlands and England reveals how happy accidents can trigger opposite types of behaviours, transformative and reproductive. Happy accidents can either induce a nation to reinvent its historical success model comprehensively, as was the case in post-WWII Netherlands. Or they can facilitate a sense of continuity with the unintentional consequences of erstwhile glory days, to an extent that comprehensive reinvention can be avoided – as happened in post-WWII England.

*a) The effect of happy accidents in post-WWII Netherlands*

Why did the Netherlands turn the corner ahead of much of the rest of Western Europe after WWII and again in the 1980s? In both cases, it was not primarily due to the far-sightedness of Dutch labour, business and government representatives. Several happy accidents led to broad support for the post-WWII settlement of low-cost consociationalism, some of which I have already touched upon above. There was the emergence of a Green Front in the 1930s that gained much support due to the Atlanticist, “world-state”-minded government's botched management of the gold standard crisis. Subsequently, during the German occupation of WWII there was an upsurge of national consciousness in the highly fragmented Netherlands. Also, the ravages of WWII had created a new level-playing field between finance and industry, the Holland city-states and the outer provinces, Catholics, social-democrats and Reformed Protestants. The loss of the Dutch Indies provided a new geopolitical clarity of mind amongst all quarrelling groups. This clarity was propitious to the reinvention of the Dutch historical success model of Dutch nonconformism, and eventually would help the Netherlands punch well above its weight in the laying out of prototypical European Community traditions. In particular since Catholics – most with links to the 1930s Green Front – came to power after WWII, with a greater readiness to focus on the Catholic European Community than their protestant, Atlanticist predecessors. With the grandeur of colonial rentier capitalism out of the way, the Dutch in effect went back to the humble roots of their success in the sixteenth and seventeenth century: a low-cost economic base. Testifying to the birth of a new national consensus, all denominational groups early on agreed to restrain wages and produce more cheaply than in neighbouring countries.

Low-cost consociationalism, rather unintentionally, functioned as the stepping stone to not only a higher quality of life, but also a vigorous system of parliamentary democracy. Some may have anticipated that consociationalism would produce a level-playing field for a more sophisticated democratic rivalry. What few had anticipated is that this level-playing field would be used to revive the social-democratic dream of a national “breakthrough”. This social-democratic breakthrough for the first time in Dutch history would produce a national consciousness able to override local and denominational allegiances. Finally, what none could have predicted is that Catholics, long sufferers of a

minority complex in this nation with protestant overtones, would be the ones to open up the Pandora box of national consciousness – by virtue of greater individualisation and dissent in their own ranks than in the other pillars. Nevertheless, the Orangism that finally emerged would be neither overtly Protestant nor Catholic in nature. Instead it would take on the “secular Christian” character anticipated by 1930s social-democrats, not because the latter actively pushed for it, but because it fitted so well in an emerging European Community tradition of “secular Christianity”.

Arguably, the discovery of natural gas sped up the entire process. After all, democratisation also entails the trading of property for political rights; the newfound gas riches allowed the government to subsidise this trade-off. Eager to re-open their case for a breakthrough of societal divisions, the social-democrats in particular were in favour of that last point. Yet, the discovery of natural gas also had a disrupting effect: it greatly reduced the urgency of all parties involved to end their polarisation and politicisation practices – which hampered the reinvention of the traditions of pacification, living-together-apart and proportionality that laid the basis of the post-WWII settlement. After talk of a Dutch miracle in the 1960s finally turned into talk of a Dutch disease in the late 1970s, a new settlement was finally reached in 1982: the Wassenaar Agreement.

Often forgotten is that some 13 years lapsed before the 1982 Wassenaar Agreement was recognised as having produced a new geopolitical success model – the Dutch polder model or “third way”. Remarkably, it was belated geopolitical recognition by European Union leaders more than domestic conviction or foresight that led to all Dutch negotiation parties finally accepting interpretations of a new success model. Instead of exceptional foresight or sacrifice, what Dutch leaders excelled at was management of the process of change: they did not force the pace of change, but relied on happy accidents to gain a broad platform of support for the Wassenaar Agreement on the basis of fait accompli. Besides the emergence of a new national consciousness, the main happy accident Dutch leaders took advantage of derived from the 1960s and 1970s breakthrough movement. This breakthrough, which had come comparatively late in Western Europe, weakened the male wage earner family structure on which post-WWII low-cost consociationalism had been built. Assumptions about the role of women in the Dutch labour market changed, belatedly in comparative perspective. What is more, assumptions changed in a rather idiosyncratic direction: flexible, part-time jobs were to be the hallmark of emancipated women. Although entirely unplanned by government, the comparatively greater influx of women in part-time jobs in 1980s Netherlands has greatly helped the country reinvent its low-cost consociational model in a more modern guise – keeping wages and inflation at bay, diminishing unemployment rates to a spectacular degree, while retaining significant welfare state aspects. There was another happy accident, at the European level. Dutch women’s belated influx in low-cost, flexible jobs coincided with France’s U-turn on the need for European integration in the 1980s. This U-turn allowed Delors to develop a European Employment Strategy in the early 1990s. Ultimately, Delors’ search for role models triggered European praise, and interpretations of the Netherlands as the rightful heir of the West German “social market” economy.

***b) The opposite effects of happy accidents in post-WWII England***

As noted above, while a series of happy accidents induced the Dutch nation to comprehensively reinvent its historical success model after WWII, happy accidents had an altogether different effect in post-WWII England: they facilitated a sense of continuity

with erstwhile glory days – to an extent that comprehensive reinvention of the historical English success model could be avoided.

How did Dutch and English conditions differ to produce such opposite effects? For one, the consequences of the international financial crisis in the 1930s were better managed in England; among others through the rapid instauration of a sterling zone and central bank collaboration in the Commonwealth area. Also, as one of the few European countries, England was not occupied by Germans during WWII. Furthermore, the protracted decline of the British Empire precluded immediate Scottish dissent, as well as a comprehensive reinvention of the relation between the English nation and State. The 1976 sterling crisis, and subsequent “policy shifts”, proved a happy accident for the economic growth of the UK, in particular London. Both in terms of outward and inward foreign investment, London from all the world’s city-states benefited most from the US-initiated de-regulation of capital markets and the expansionist fiscal policy of the early Reagan era. In retrospect, acting as a launching pad for the US’ new geopolitical strategy meant that the UK could benefit from a large chunk of that country’s budget and trade deficits in the 1980s; all of which considerably fuelled the recovery of its economy. The emergence of a concept of Anglo-modernity – English-speaking countries as the shock-troops of modernity and capitalism – and Anglo-American nonconformism in the 1980s and 1990s further precluded the need to comprehensively reinvent the historical success model of Anglican nonconformism. Finally, the ERM crisis, and ensuing recriminations and blame-laying between Britain and Germany, induced the Conservatives to fully play the Atlanticist card and follow the Euro sceptic route – at a time of growing desperation with the decline of the German Wirtschaftswunder.

Of course, one could easily criticise the route of “continuity at any price” taken by England after WWII. For instance, one could argue that Thatcher’s call to accept the primacy of unilateral liberalism is an instance of chain of causality reversal – an *inversion* – of England’s historical success model. And Gordon Brown’s primary objective to make the City of London the global financial center of the world reflects a misguided substitution of State control for the fit-of-absentmindedness that worked so well historically. The original English success model was that of an ambitious emerging large nation, steeped in the exact opposite of the orientation promoted by Thatcher, her successors, and indeed, most of her 20th century predecessors: England’s parliament and financial authorities focused much more on the «real» national economy than its Continental counterparts up to the mid-nineteenth century.<sup>1020</sup> Starting from this advanced real economy orientation which goes back to the Middle Ages, many unintentional effects were at work in turning the City into the guardian of Anglican nonconformism; and the English banking system into the guardian of the international Gold Standard. The formation of Empire and retrospective attempts to legitimise it in terms of a liberal tradition have durably obscured this original chain of causality, however. In sum, Thatcher, Blair and Brown – like many of their 20th century predecessors – turned the historical end result of global financial leadership, achieved after an entirely different original focus and many unintentional effects, in the very cause of nation-state success.

Clearly, it is unrealistic and undesirable to go back to England’s original real economy orientation. Yet, it is equally undesirable to keep ignoring the original chain of causality in the name of an original unilateral liberalism orientation, and the apparent continuity of purpose that the Pax Americana or any future flagship of the liberal tradition would provide with the British Empire. What is needed is a reconstruction of the English

success model, with full consciousness of its original chain of causality and the pivotal role played by happy accidents between original settlement and geopolitical success. This implies welcoming permanent immigration of high-quality foreigners – with individualisation and re-societalisation aspirations that cannot be fulfilled in their mother country – across the country, in order to revive a new spirit of Anglican nonconformism. It also implies guaranteeing the City of London’s international openness as only a secondary objective. And it entails using geopolitical buffers and translation mechanisms – such as the EU – for as long as necessary to allow for the geographical expansion of markets and civic habits in which qualitatively superior English standards ultimately could lead the way. That is, just like during the first fifty years of the hundred years of peace – 1815-1914 – which rested primarily on the Holy Alliance and the Concert of Europe rather than English unilateral liberalism (Polanyi, 1957a: 5, 76).

*P7: GO AGAINST THE GRAIN IN PERIODS OF HIGH MODERNITY AND REINVENT HABITS ASSOCIATED WITH LANDMARK SETTLEMENTS*

There is a final condition to the effective reinvention of a nation-state’s historical success model, which has to do with the anticipation of geopolitical shocks. Geopolitical shocks are typically preceded by overbearing “high modernity” or “end of history” ideas. During these periods, liberal, social or third way myths of intentionality eclipse the importance of traditions of democratisation and happy accidents in explaining historical success. I find that the more up-and-coming leaders go against the grain in periods of high modernity and reinvent behavioural habits associated with old and successful, yet now criticised settlements, the more likely they will benefit from happy accidents and achieve a quick recovery. This finding exemplifies how expressive actions – the reinvention of habits associated with past successful settlements – can facilitate the emergence of substantial belief in a new settlement. It also shows that happy accidents are not principally down to blind luck, but often benefit those with the more vigorous traditions and expressive habits.

Summarising quickly, bedevilled habits<sup>1021</sup> and traditions should not be discontinued altogether, but renewed in an adapted guise in anticipation of a geopolitical shock, which will prompt calls for less overbearing leadership and a return to the success model of the past. Often this will mean relegating the modernisation of habits and traditions to low-key, private meetings. All in all, even the low-key renewal of habits provides a platform to quickly start a change programme after a geopolitical shock, and turn the corner ahead of geopolitical rivals. For it provides up-and-coming leaders with a greater sense of continuity; needed to quickly step in and conclude a new settlement, although initially only of a partial quality. By virtue of such an early, but partial settlement, the odds are that leaders will be able to expediently leverage fortuitous dynamics, and improve partial settlements along the way. This is not to say that preventing old behavioural elements from turning stale, and concluding an early, partial settlement necessarily blesses new leaders with a superior degree of intentionality or vision. Rather, it provides all involved with a familiar, consistent behavioural model; a model whose complexity-reducing effects in the aftermath of geopolitical shocks increases the odds of leaders taking advantage of happy accidents, and nation-states reinventing a successful settlement ahead of geopolitical rivals. Essentially, maintaining the vitality of habits and traditions can infuse leaders and their followers with the necessary confidence to steer

away for shortcut solutions and accept a measure of fit-of-absentmindedness along the way.

For instance, there was another reason why the Netherlands turned the corner ahead of the rest of the European Union in the 1980s. After more than a century of belated modernisation, a social-democratic “high modernity” myth gained currency in the late 1960s and 1970s. Boosted by the revenues of natural gas, the Dutch social-democrats gained power in the 1970s with their message “Change the People, Improve the World” (Van Rossem et al., 1993). Social-democrats reified Dutch national character as essentially “social” and reinvented the Dutch nation as a “progressive beacon to the world” (Kok, 2004: 321); that is a national community which takes as its core mission “solidarity”, and the formulation of a progressive egalitarian model for the rest of the world (cf. Lechner, 2008). Prime Minister Den Uyl even used the Dutch football team’s “total soccer” model at the 1974 World Championships as a metaphor for the Dutch nation’s civilisation role in the world: he congratulated the team for writing “world history” (Andere Tijden, 2004; Kok, 2004: 20). Clearly, these social-democratic high modernity ambitions were somewhat overbearing, given the Dutch historical success model of Dutch nonconformism. Even during its Golden Age, the Dutch Republic was perceived as a non-replicable oddity – wealthy beyond proportions but devoid of a national ideology – by contemporaries embarked in national modernisation projects (Porter, 2001). Not surprisingly, a dismal decade of inflation and productivity loss followed the “Change the People, Improve the World” civilisation myth.

So, what explains the rapid revival of Dutch fortunes in the 1980s and 1990s? One secret of this rapid revival is that during the 1970s and early 1980s up-and-coming leaders such as Wim Duisenberg and Wim Kok went against the grain of high modernity myths. These leaders behind-the-scenes kept reinventing behavioural habits associated with “Old Corruption” – esoteric consociational practices and other more pragmatic behaviour. Indeed, during the heydays of polarisation, politicisation and participations (1966-1981), Dutch leaders such as Duisenberg and Kok opted to complement fashionable attacks on the “undemocratic” habits of the old generations with the low-key and private reinvention of exactly those old habits. That, is habits of depolarisation, depoliticisation and elitist decision-making. The polarisation of the public debate during the 1970s notwithstanding, the more pragmatic social-democratic, confessional, liberal, employer and trade union elements throughout remained on speaking terms and kept demonstrating a willingness to compromise. This alternative consultation channel provided a new generation of leaders and policy vehicles with a means to anticipate the need for a settlement ahead of most of their European counterparts.

For instance, when the social-democrat Wim Duisenberg was appointed Minister of Finance in the cabinet Den Uyl (1973-1977), he tried to follow the cautious, pragmatic financial route he already had advocated as a university professor in 1970.<sup>1022</sup> This orientation went very much against the grain of Prime Minister Den Uyl, who presided over a government that had been voted into office on the basis of promises of large government expenditures, equality and income redistribution programmes. Duisenberg, as in the old days, behind the scenes deliberated with the Dutch Bank and other financial instances about the best way to curtail government excesses and overzealous world civilisation ambitions. After a spell as vice-president of Rabobank - from 1978 to 1981 – Duisenberg was appointed president of the Dutch Bank in 1982. In this capacity he gave his full support to the 1982 Wassenaar Agreement. He also contributed to the emergence of the Central Planning Bureau

as the guardian of depoliticised, depolarised, and elitist decision-making in the Netherlands – i.e. guardian of the Dutch traditions of pacification, living-together-apart and proportionality.

Furthermore, as president of the Dutch Bank Duisenberg translated his earlier calls for caution and pragmatism in a comprehensive reinvention of Dutch monetary policy. In the best spirit of Dutch nonconformism, Duisenberg linked his behaviour to that of the President of the Bundesbank, and the Dutch guilder to the German Deutsche Mark; all in the name of reaping cheap international spill-overs of the latter currency's strength. Contrary to Den Uyl, Duisenberg did not mind being called extremely pragmatic – or receiving the nickname “Mr Fifteen Minutes” following his copy-cat behaviour. Ultimately, Duisenberg would be recognised as a main contributor to the Dutch miracle in the 1990s, earning him an appointment as the first president of the new European Central Bank in Frankfurt (1998).<sup>1023</sup>

The case of Wim Kok bears many similarities. As chairman of the socialist trade union NVV (1973 to 1982), and chairman of the new socialist-catholic federal union, the FNV (1976 and 1986), Kok initially was an advocate of polarisation, politicisation and participation, at least publicly. Years before the 1982 Wassenaar Agreement, Kok behind the scenes reinvented old consociational habits with up-and-coming leaders of other denominational groups. Indeed, the drafting of the Wassenaar Agreement was a result of Wim Kok privately meeting with his employers' organisation counterpart, Chris van Veen, at the latter's home in Wassenaar. The Wassenaar agreement was pounded out in silence on van Veen's kitchen table, hardly a public democratic forum. Although the Wassenaar agreement catered much more to the wishes of employer organisations than the unions, Kok in 1986 was called on to succeed Joop den Uyl as leader of the social democratic party in 1986. During the 1989 electoral campaign, Kok translated private behaviour into public rhetoric: he told the electorate that his party had said goodbye to its historical “socialist” pretensions. Kok argued that the appeal of the liberal tradition had become so obvious that there was no realistic alternative anymore but to strive for a pragmatic coalition with the more right-wing parties. This very pragmatic stance earned Wim Kok the job of Deputy Prime Minister and Minister of Finance. After becoming Prime Minister in 1994, Kok officially proceeded to casting off “the ideological feathers of the past”. During most of Kok's time as Prime Minister, the Netherlands was booming economically and Kok was credited internationally for the Dutch “Polder Model” or “Third Way”. Unfortunately, Kok became a prisoner to this new high modernity myth. When the Dutch “third way” went out of fashion early 2002, an anti-modernist counter reaction ensued, with the rise of the right-wing populist Pim Fortuyn.

The behaviour of Chancellor Lawson in Thatcher's cabinets comes closest to the two above Dutch cases. During the 1980s, the Bank of England was considered “one of the symptoms, indeed, arguably one of the courses” of British economic decline since the 1960s (Kynaston, 1995: 37). In a replay of the sporadic banking and monetary crisis during the period 1790-1840, the Bank was deemed responsible for the chaotic monetary policy, high inflation and gradual decline of the British currency from the 1960s onwards. Of course, the fault was not primarily with the Bank of England, as real power over monetary policy had been transferred to politicians since the abandonment of the Gold Standard in 1931. During Thatcher's Big Bang era of the 1980s – a protracted battle against Old Corruption, the Bank lost what little residual influence it had possessed over high-level policy. With inflation continuing unabated, Chancellor Lawson in the latter half of the 1980s went against the grain of Thatcher's policy by implying that inflation might be

easier to control if England had a central bank that was independent of Government control, as in the old days. Lawson even proposed to Mrs. Thatcher a fully worked-out scheme for the independence of the Bank of England. The independence of the Bank of England – guardian of English traditions – became somewhat reinforced after the demise of Thatcher, and Black Wednesday. Lawson’s proposals, however, were only half-heartedly implemented, which spelt disaster – and confusion with the FSA’s responsibilities – during the most recent monetary crisis.

### **12.3 The level of analysis of firms**

*P8: FIRMS’ SUCCESS DEPENDS ON THEIR ABILITY TO CONTRIBUTE TO THE RENEWAL OF SETTLEMENTS FOLLOWING SIX STRATEGIES*

In chapters 6 to 11, I have laid out in detail how Dutch and English financial institutions’ differing capability to contribute to the renewal of republican settlements impacted on their long-term success. I identified six strategies firms should follow in this regard; regardless of their commercial or mutual legal character and historical origins.

What is worth discussing in greater detail here, is how several of the conditions to the successful reinvention of nation-states’ success models also apply to firms (Propositions 3-6). In this regard, it is important to note that for firms’ leaders history primarily begins with the foundation of their organisations. They generally interpret history in light of their firm’s landmark periods; i.e. the periods when a firm occupied its most favourable position in settlements and a country’s success model.

In the following discussion I shall focus on the examples of English building societies and Dutch co-operative banks to illustrate my points about: the role played by happy accidents (12.3.1), the importance of leveraging supra-national buffers (12.3.3) and changes in the relation between state and nation (12.3.2.), as well as the importance of going against the grain in periods of high modernity (12.3.4).

#### **12.3.1. The pivotal role of happy accidents**

##### *a) English Building societies*

During the 1960s and 1970s building societies experienced their heydays as representatives of England’s success model of Anglican nonconformism. Since their earliest foundations at the end of the eighteenth century, building societies benefited from several happy accidents to finally occupy this leading strategic position.

A first happy accident refers to a rather exceptional demographic situation. Building societies were founded midst the large migration influx to the new industrial cities in the Midlands, Yorkshire and Humberside and the North West, at a time when London was in decline as a centre of nonconformism and guardian of English traditions of democratisation (1790-1830). This provided the nonconformist industrial communities in the outer provinces – building societies’ members – with the opportunity to become the new champions of English traditions of liberty and property.

A conjunction of favourable circumstances after WWI helped building societies take on the mantle of champions of English traditions more firmly – in particular the traditions of Anglican voluntarism, Anglican democracy and secular Anglicanism. The

building societies had gone through a particularly troubled period from the last quarter of the nineteenth century to WWI.<sup>1024</sup> This would all change from the 1920s onwards. The origins of this change in fortune lay much further in the past. First, there was the shift in allegiance from the Liberal Party to the Conservative Party's influence sphere. This shift did not occur overnight, but by fit-of-absentmindedness over a longer period of time. Trapped in a Red Queen race with Labour for the "progressive" vote, Liberals' aggressive attitude towards the Building Societies Association drove the latter in the arms of the Conservatives. Conservatives would not have wanted to help building societies, if it were not for another happy accident. During the 1870s the Conservative Party finally came to terms with the Reform and Representation Acts, having received conclusive proof that the much wider male franchise of tenants and small property-owners was not intent on undermining the established order. This gave credibility to Disraeli's Tory democracy gamble – of extending the party and suffrage to the lower classes. Thus, with the help of Conservatives, the 1874 Building Societies Act was passed against the wishes of Liberals<sup>1025</sup> – allowing building societies much more financial freedom than friendly societies in general, and Co-operatives in particular. As mentioned before, this does not mean that all building societies let go of their liberal allegiance overnight. With the Liberal party in secular decline from WWI onwards, however, more and more building societies came into the fold of the Building Society Association by default of a genuine alternative – although the Association never publicly avowed its allegiance to any particular political party.

Furthermore, in 1895 the Building Society Association reached an agreement with the government, allowing building societies to pay interest free of income tax in exchange for a composite tax payment from the societies themselves.<sup>1026</sup> This agreement would prove crucial for building societies' success, although with a long delay; and largely unintentionally, since the original intention of the arrangements was no more than to simplify the administrative procedures concerning the taxation of building society interest.<sup>1027</sup> The assumption was that such simplification would not cause the Inland Revenue to lose any tax revenue.<sup>1028</sup> In other words, there was not an intention to give special protection to building societies through the composite tax arrangements – since the vast majority of building society investors were small investors who were not liable to the standard rate anyway. Yet, when income tax rates rose after WWI, building society shares and deposits became more attractive to those liable to this tax, i.e. the middle classes. More substantial investors soon became more interested in building societies' services. Some of these were people who before 1914 had invested in houses to let and who had now to find an alternative – the Lib-Lab coalition's stance on land rentiers had effectively destroyed the private rental option in England. Building societies provided one such alternative.<sup>1029</sup> Finally, after a last happy accident, the collapse of the international stock markets, the average shareholding in building societies by 1930 had grown considerably higher than in the various popular savings institutions and close to that of the average investor in industrial securities.<sup>1030</sup> Immediately after WWII, the Board of the Inland Revenue proposed to abolish the income tax arrangements, but in 1950 the Chancellor of the Exchequer announced that he intended to bow to the "fait accompli" and give the arrangements permanent effect and statutory sanction – especially in view of the need to stimulate housing in post-WWII England.

For a comparative discussion of how a conjunction of unfavourable conditions precluded Dutch mortgage banks benefiting from unintentional advantages in a way the English building societies could, I refer to chapter 8, pages 201, 205 and 210.

***b) Dutch Co-operative banks***

Dutch Co-operative banks became champions of the Dutch success model of Dutch nonconformism by the 1960s, and into the 1970s. As their building society counterparts, Dutch Co-operative banks benefited from several happy accidents to arrive at this high point. For the first time in several centuries, the agricultural sector in the outer provinces superseded the Holland city-states as draughthorse of economic growth between 1830 and 1880. After Britain's repeal of the Corn Laws in 1846 and the resulting opening of international trade, the liberal Dutch government started investing large amounts of money in agricultural education on a regional basis, to guarantee Dutch agriculture's competitive position in the world economy.<sup>1031</sup> That is, rather than fostering industrialisation and finance at the expense of home-grown agriculture, as happened in England. During the agricultural depression of 1882-1896, the government called upon the goodwill of local religious leaders to set up agricultural co-operatives at fiscally advantageous conditions.

In England an ideology of universal liberalism took hold in the outer provinces in the first half of the nineteenth century to facilitate Anglican secularisation tendencies, and put a hold to the nonconformist revivals of the period 1790-1830. In the Netherlands the opposite was the case. The liberal ideology remained a privilege of the wealthy, Atlanticist rentiers in the Holland cities. These so-called "Regent capitalists" found themselves increasingly separated from the outer provinces which experienced a religious revival. As such, secularisation would remain a far cry in the Netherlands long into the twentieth century.<sup>1032</sup> Combined with the intensely locally oriented character of Dutch society, this helped Catholic and Protestant co-operatives enormously in their bid to fend off the challenge of liberal savings banks and commercial banks. Competition was not only fended off in the agricultural sector, but in the entire local communities in which religious leaders prevailed and co-operatives became embedded as retail banking and small and medium enterprise credit providers.

A final happy accident Dutch co-operative banks benefited from was the creation of a level-playing field between finance and agriculture, city-states and outer provinces, Protestants and Catholics during and after WWII. Protestants had discredited themselves with the bad management of the international financial crisis in the 1930s. In the process, the protestant predilection for a colonial form of Regent capitalism was also discredited, to the benefit of the agricultural Green Front led by Catholic leaders. After WWII Catholics came to power, and all parties pledged their support to agricultural co-operatives who were now treated on a par with commercial banks by the Ministry of Finance. The emergence to power of Catholics on a cross-party platform of agricultural modernisation and support could not have come at a more propitious time, given the coincident emergence of a "Catholic" European Community, focused on a similar agenda of agricultural modernisation and competitiveness.

### 12.3.2 Leverage changes in the relation between state and nation

#### a) *Building societies*

Other historical dynamics – of a more intentional nature – laid the basis of building societies' success as champions of Anglican nonconformism by the 1960s and 1970s. Summarised quickly, building societies were better at leveraging changes in the relation between state and nation than other friendly societies from the mid-nineteenth century onwards; and better than clearing banks after WWI. In the period 1790 to 1830, the power of provincial constituencies increased considerably, providing an extra-parliamentary relation between State and English nation. This extra-parliamentary relation had a peculiarly nonconformist, outer province character which transcended differences between the working and middle ranks. After the passage of the first Reform Act (1832), a break between working and middle classes emerged gradually. Equally gradually, the centre of gravity of the modernisation of English traditions moved back to the home counties and London (see p. 147-48). Both dynamics served emerging leaders of the British Empire such as Peel and Gladstone hand and foot. These leaders disliked the options of either a variety of provincial popular opinions, or an unpredictable mass popular opinion. They preferred the dilution of popular opinion into a set of predictable, minority interests adhering to a few general principles. Distinguishing between the realms of freedom and necessity, and promoting self-sufficient classes was one way to achieve this. The building society movement followed suit, although in a rather spontaneous fashion given the decentralised character of the movement. As the centre of Anglican nonconformism moved back to the South from the mid-19<sup>th</sup> century onwards, building societies were increasingly founded in the South West and home counties. These societies differed from their predecessors in that they had a permanent, secular Anglican character. As investors could join at any time and withdraw money at will, the character of building societies changed from self-help vehicles to agencies for the investment of capital. Crucially, the building societies started compartmentalising their services to the different classes, in line with joint-stock banks' departure from their direct democracy roots, and the break between working and middle classes that followed the first and second Reform Acts.

While representatives of the other elements of the friendly society movement – savings banks and co-operative organisations, pledged their continuing allegiance to the increasingly radical stream of Liberalism and the principle of voluntarism in the North, building societies followed in the footsteps of Christian Socialist leaders in the South. The latter leaders felt more inclined to favour the Conservatives and the principles of Anglican democracy and voluntarism. In many ways, permanent building societies through the latter part of the nineteenth century and the twentieth century functioned as the heirs of the Christian Socialists, those Anglicans who tried to bring nonconformists back into the fold of traditions of Anglican democracy and voluntarism. In sum, *building societies were one of the few English vehicles able to resolve the contradiction between Anglican paternalism and nonconformist libertarianism*. This is also the way Conservatives such as Macmillan saw it; particularly since building societies appeared to be the heirs of Disraeli's Tory democracy. Indeed, building societies were rather unique in that they mobilised investments for different classes of investors and borrowers: from working class to upper middle class investors, and from nonconformists in the North and Midlands to Anglicans in the South. All this made building societies an up-and-coming force of the traditions of Anglican democracy and voluntarism.

During the 1920s, building societies decisively pulled away from the other members of the 18<sup>th</sup> and 19<sup>th</sup> century friendly society movement. To some extent, they would do the same with clearing banks from the late 1950s onwards. While clearing banks were trapped in their allegiance to Empire, were increasingly dominated by government and used as a vehicle of monetary policy, building societies were left free to pursue their own goals. Thus, building societies gradually became the new champions of Anglican voluntarism.

#### ***b) Dutch Co-operative banks***

The story of Dutch Co-operative banks is comparable. They pulled away from the competition of other self-help organisations such as savings banks and mortgage banks by virtue of being much better aligned with changes in the relation between the Dutch State and nation. First, Co-operative banks were champions of the consociational movement – promoting a multi-regional, multi-national Netherlands – from their very foundation. As consociational realities increasingly encroached on liberal dreams, co-operative banks flourished, savings banks failed to grow much further, and mortgage banks suffered. Co-operative banks’ leaders’ involvement in the 1930s Green Front, as well as their exemplary anti-German front during WWII, earned these organisations a central position in the making of a new Dutch national consciousness. That is, on a par with commercial banks – which had declined due to their association with a discredited form of Regent capitalism. Co-operative banks flourished after WWII for other reasons, most notably their efforts to modernise both Dutch and European agriculture and promote small and medium enterprise in a spirit of “secular Christianity” – in line with tendencies of secularisation and the emergence of the social-democratic myth in both the Netherlands and the European Community in the 1960s and 1970s.

### **12.3.3 Leverage supra-national relations**

The comparison between building societies and Dutch co-operative banks is so clear regarding this point, that it need not be elaborated in great detail. While building societies were legally discouraged to engage in supra-national relations before the late 1980s, Co-operative banks since their foundations had adopted an international viewpoint – given Dutch agriculture’s international position. Also, while Co-operative banks after WWII took a decisive stake in EC agricultural and small and medium enterprise policy, as well as the elaboration of the European “mutual recognition” tradition, building societies did nothing of the sort. At the end of the day, this condemned building societies to a marginal position during the 1980s, when Conservative governments reinvented the success model of Anglican nonconformism according to an ideology of unilateral liberalism. Dutch co-operative banks, by contrast, fared much better, although they had to relinquish their position of champions of Dutch nonconformism to commercial banks.

### **12.3.4 Go against the grain in periods of high modernity**

Building societies’ history exemplifies both the best and worst behaviour regarding this point. The societies pulled away from the myth of unilateral liberalism from the mid-1840s onwards, while other members of the friendly society movement such as English co-operatives stayed stuck in a dream of an international commonwealth. On the other hand, the urge of many building society leaders in the 1980s and 1990s to join the new liberal dream, and relinquish their own traditions, facilitated dismal types of behaviour: carpet bagging and other types of speculation in the housing market. The

withering away of building societies' fiscal advantages and protection against carpet bagging has induced a boom in short-term housing speculation and a plummeting savings ratio. At the end of the day this means English consumers are less protected from the present "credit crunch" and housing crisis than for instance their Dutch counterparts.

The 1980s example of building societies stands out particularly negatively against the Dutch counterexample of housing associations. The latter associations became infused with consociational traditions. Yet, during both the periods of polarisation (late 1960s and 1970s), and neo-liberalism (1980s and 1990s), Dutch housing associations managed to modernise their operations without relinquishing these consociational traditions. All in all, this has rendered the Dutch housing market more balanced and of a higher general quality than its English counterpart. Also, this means that varieties of Dutch housing, most notably the social rental sector, are not hit as much by stigma and spatial segregation as in countries such as the UK – where the tradition of neutrality between varieties of housing has been relinquished in favour of a one track home ownership direction (Priemus and Dieleman, 1997; 1999; 2002).

There are many other examples of counterproductive behaviour, i.e. leaders jumping on the bandwagon of a high modernity myth and severely hurting their organisations in the process. One example that comes to mind is Barclays, whose first non-family chairman in modern history, Sir John Quinon, distinguished himself from his predecessors by totally buying in the North American "happy mediocrity" tradition. Quinon during the 1980s expressed his desire to turn Barclays, the old champion of Anglican democracy and voluntarism, in the "McDonald's of banking", with dire consequences in the ensuing decade. The story of ABN AMRO is even worse than that of Barclays. The leaders of the Dutch bank ABN AMRO bought in too much into the US liberal tradition, and neglected their Dutch nonconformism origins; ultimately causing the demise of this Dutch flagship in 2007.

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<sup>970</sup> Thus, I could have added a sub sentence in the middle of proposition 1: the dynamic ability to renew settlements between rivalling traditions of democratisation presupposes an ability to steer clear of liberal and social-communitarian prescriptions of success. As demonstrated in chapter 7 (see p. 223), the liberal and social-communitarian success models are based on historical myths. They are the unintended and undesired consequences of historical landmark settlements that have been reified as best practice models by ideologues, eager to contrast their allegiance to High Modernity with the Old Corruption of tradition.

<sup>971</sup> Under impulse of the Supreme Court, notions of impartial efficiency and the elimination of wasteful competition came to dominate US popular opinion in the 20<sup>th</sup> century. One of the first clear expressions of the efficiency mantra was the "politics of productivity" doctrine which emerged during the Progressive Era – on initiative of among others the 1918 War Production Board. It was then championed by Herbert Hoover under the form of a "business associationism" that would bring about impartial efficiency and eliminate wasteful competition (Hawley, 1973, 1974).

<sup>972</sup> In other words, the US has "a strong religious culture because the strains of cultural transition and the need for cultural defence gave each of these groups good reasons to remain committed to its religion" (Bruce 1996: 137).

<sup>973</sup> As noted by Dobbin and Sutton (1998), the strength of the US State that it – in contrast with the French State – keeps an appearance of being administratively weak and fragmented, while exerting very strong normative pressure on private actors. Indeed, the key to the peculiar strength of America's weak state is that Americans come to see civil society and the market as the sources of social phenomena that are in fact generated by the state. The U.S. regulatory framework led managers to recast policy-induced structures in the mould of efficiency – this is Four Characteristics of U.S. Employment Law: 1. ambiguity and complexity of compliance standards – this convinces executives that they'll need experts to properly comply. 2. expanding scope of the law – executives see need to establish permanent offices to track changes. 3. fragmented nature of regulation – not only general compliance offices needed, but special antidiscrimination, benefits and health and safety offices to handle

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different regulatory agencies. 4. antistatist elements of the state – management specialists want to keep their jobs, so recast in efficiency terms to disassociate with policy (Dobbin and Sutton, 1998).

<sup>974</sup> The gold standard is often presented as a liberal monetary regime that privileged market-led adjustments among national economies, and imposed significant constraints on the policies of states. In other words, the British gold standard purportedly was part of a broader attempt to subject societies to the universal discipline of the market discipline – reflecting the growing prominence of a universal liberal ideology across Europe (Gallarotti, 1995; Knafo, 2006; Polanyi, 1957).

<sup>975</sup> The term “citizen” had, in America although not in Europe, become synonymous with the right to vote. Political democracy was thus an essential attribute of American freedom. The vote, said one advocate of democratic reform, was “the first mark of liberty, the only true badge of the freeman” (Foner, 1998: 50-53).

<sup>976</sup> Testifying to the lack of resonance for moral absolutes, the use of God and religion in English political discourse was accepted only in a rather diluted way, and from the late 1960s was considered entirely “not done” what had been very much acceptable in England for several centuries, by contrast, was to make implicit reference to one’s duty to cultivate virtues of self-effacement in service of the country and the greater good, as in the tradition of Tory voluntarism.

<sup>977</sup> Thatcher declared on the BBC that the country was being “swamped” with foreigners, who were endangering the character of the nation.

<sup>978</sup> A discourse reminiscent of Enoch Powell’s populist patriotism.

<sup>979</sup> In Kauffman’s words (1999): “The American case betrays many of the same features that characterize other ethnic groups. These include: a sense of election (Puritan), a myth of exclusive genealogical descent (Anglo-Saxon), a set of cultural boundary markers (“wasp”), a process of dominant-conformity (Anglo-conformity), an association with a specific territory (United States Frontier), a life-style representation (Yeoman), and a communal Golden Age (Jefferson’s Republic) to which the group seeks to return”.

<sup>980</sup> There also was no revival of Christian religion in England in the 1930s, contrary to the US where the Great Depression induced a massive revival of evangelical and fundamentalist christianism since the Great Depression in the 1930s. In terms of religious support, Thatcher comparatively was also poorly served, narrowing considerable the platform of support for her evangelical change project. In the US, in indignation about the Democrats’ support for the Civil Rights and Desegregation movements in the 1960s and 1970s, had led conservative catholics and in particular the evangelicals to gradually realign their political support from the Democratic Party to the Republican Party. By the late 1970s the move had been completed, with evangelicals now forming the “the most strongly Republican group in the religious spectrum.” (Layman, 2001: 199; Wuthnow, 1988: 133). Thatcher’s hopes were especially in vain, since the UK had not experienced the replacement of a class divide by a “liberal versus orthodox” divide as occurred in the US since the 1970s and maybe even sooner (Manza and Brooks, 1999; Noll, 1988). Evangelical and fundamentalist churches had not substituted mainline Protestant churches in the UK since the 1960s; while the latter generally were somewhat relativist and “liberal” in their attitudes, the former became infamous for their belief in the inerrancy of the bible, salvation through faith, the born-again experience, and a premillennialist eschatology (Carpenter, 1997; Roof and McKinney, 1987; Stone, 1997) – fundamentalist beliefs that do not sit well neither with the “secular Anglican” nature of England nor the respect for international historical and contextual differences inherent to the multi-national “global” order which the British historically vied for. Also, Thatcher could not count on the “suburban warrior” spirit demonstrated by white evangelical conservatives in face of the Desegregation and Civil Rights movements (McGirr, 2001). The urbanisation of England had followed a very different pattern than in the US. The twin tensions of being part of a nation of immigrants and wanting to be a bastion of American values - white, “Anglo-Saxon”, middle-class conformity, spurred the US movement of suburbanisation since about 1900. The alliance of white evangelicals with these American values since the 1960s reinforced the movement of suburbanisation (Carlos, 1970; Curtis, 1991).<sup>980</sup>

<sup>981</sup> For instance, Dow Chemical’s CEO’s expressed his dream of establishing headquarters on an neutral island ‘beholden’ to no nation and concluded that the managers of global corporations are demanding ‘... the right to transcend the nation-state, and in the process, to transform it’ (Barnet and Muller 1974: 16).

<sup>982</sup> This apparent programme of privatisation in effect significantly enhanced the importance of the Churches as funders for many organisations with a social role (Schafer, 1997: 1, 18-19).

<sup>983</sup> British Conservatives such as Thatcher have long acknowledged that England is not a nation of immigrants (Layton-Henry, 1994).

<sup>984</sup> The US Supreme Court at the end of the 19<sup>th</sup> century recast notions of ‘commerce’, ‘contract’, etc...in constitutional terms to facilitate the adjustment of republican ideology to the rising influence of liberalism and the free-labor paradigm. US republican ideology is based on notions of freedom antithetical to experiences with the

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British empire: to be truly free in the American republic meant freedom from the corruption of aristocratic hierarchy, freedom to pursue individual opportunity liberated from monopolistic regulations, and above all freedom from historical laws which determined that republics eventually decayed and died (Freyer, 1994: 30).

<sup>985</sup> Reported by BBC News, 25 January 2007.

<sup>986</sup> Similarly, according to a 2002 Mori poll, two-thirds of British adults felt proud to be among the ranks of the working class. This "remarkable renaissance" in working class solidarity - up from 52% in 1999 - came despite a drop in the actual size of the social group. The Social Value poll by Mori also found half of those in the middle classes nursed "working class feelings" (BBC News, Tuesday, 20 August, 2002, "Renaissance for the UK's working class").

<sup>987</sup> 17 May 2007 at Sources: Office for National Statistics; Institute for Fiscal Studies

<http://www.statistics.gov.uk/cci/nugget.asp?id=332>

<sup>988</sup> From the 1880s to 1914, class sentiments had intensified considerably, partly due to Conservatives abandoning their normal Anglican democracy perspective and echoing class struggle themes.

<sup>989</sup> For instance, UK citizens' people's pension pots were hit hard by falling stock markets between 2000 and 2003, with the Government exacerbating the problem by removing tax credits from pension schemes.

<sup>990</sup> Similarly, both conformity and desire to be assimilated in British society (e.g. by West Indians) and conformity and desire for integration (e.g. by Pakistanis) are rejected by the majority of the British population. In the Netherlands by contrast, conforming behaviour was rewarded by acceptance (either through assimilation, or cultural co-existence) (Bagley, 1973: 244).

<sup>991</sup> As noted by Dobbin and Sutton (1998), the strength of the US State - in contrast with its French equivalent - is that it keeps an appearance of administrative weakness and fragmentation, while exerting very strong normative pressure on private actors. Indeed, the key to the peculiar strength of America's weak state is that Americans come to see civil society and the market as the sources of social phenomena that are in fact generated by the state. The U.S. regulatory framework led managers to recast policy-induced structures in the mould of efficiency - this is Four Characteristics of U.S. Employment Law: 1. ambiguity and complexity of compliance standards - this convinces executives that they'll need experts to properly comply. 2. expanding scope of the law - executives see need to establish permanent offices to track changes. 3. fragmented nature of regulation - not only general compliance offices needed, but special antidiscrimination, benefits and health and safety offices to handle different regulatory agencies. 4. antistatist elements of the state - management specialists want to keep their jobs, so recast in efficiency terms to disassociate with policy (Dobbin and Sutton, 1998).

<sup>992</sup> It is only in foreign policy issues that the State avowedly adopts the principle of territorial centralisation; but then again with strong normative overtones. Foreign policy as the shief of homegrown US traditions.

<sup>993</sup> Employers were similarly incapacitated, in that the national organisations of business were loose confederations with no effective authority at the level of the firm or the industry. No national center was capable of ensuring the commitment of individual companies or sectors to deals struck with the government or the unions.

<sup>994</sup> The idea that the pre-Conquest Anglo-Saxons had known a primitive form of freedom with roots in the German forests had emerged in England by the sixteenth century. According to some, this explained why Anglo-Saxons carried a desire for freedom in their veins, and had a destiny to realise this impulse. These ideas found a very fertile audience in eighteenth century America, for instance amongst "Real Whig" historians James Burgh and Catharine Macaulay. The idea that the Anglo-Saxon English had selected themselves through immigration to escape the British (Norman) yoke and bring the torch of freedom to America was a quintessential myth shared by the likes of Franklin and several constitutional founding fathers (Kauffman, 1999: 445).

<sup>995</sup> The Anglo-Saxon racial identity theory is sometimes referred to as the "Teutonic-Whig germ". Americans adapted the Teutonic-Whig germ theory which connected the ancient Anglo-Saxons to the Magna Carta, the Glorious Revolution, and other events. In the American interpretation, the United States was seen to represent the culmination of the Whig theory of history (Kauffman, 1999: 448). According to Horsman (1981: 22), the founding father Thomas Jefferson proclaimed to John Adams in 1776 that the Americans were "the children of Israel in the wilderness, led by a cloud by day and a pillar of fire by night; and on the other side, Hengist and Horsa, the Saxon chiefs from whom we claim the honour of being descended, and whose political principles and form of government we have assumed".

<sup>996</sup> This supposedly was in great contrast with French nationalism, a heady brew of universalist rationalism, Catholicism and feudalism.

<sup>997</sup> GDP levels are measured in 2007 US dollars, for which 2005 EKS purchasing power parities updated with aggregate deflators to 2007 have been used. These 2005 PPPs are obtained from OECD, [Purchasing Power Parities 2005](#), (Paris), November 2007 (*The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008, <http://www.conference-board.org/economics/>*)

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<sup>998</sup> Since the early nineteenth century, a majority of British elites saw the continued successful operation of the international financial system as the best guarantee for both a better world and British leadership (Blank, 1977: 680). The reason why unilateral liberalism has had longstanding majority support from a majority of British elites, in spite of much historical evidence of its often contrary workings, is that this principle blurs the distinction between moral and realpolitik motivations. Indeed, even during the years of great antagonism for Empire, unilateral liberalism has been used effectively as a moral justification for support for the responsible government – at the end of the nineteenth and beginning of the 20th century the British government, after WWII the US government.

<sup>999</sup> In the Netherlands, as in other Western small nations, the individual is not supposed to draw attention or try to distinguish herself from other people. Significantly, only the members of one's own reference group serve as the basic testing ground for this conformism. This group can be based on religious conviction, social background, age, education, work setting or the like. Whatever the character of the group concerned, its social conventions are very significant for what one considers worthwhile, how one thinks and what one does (Phillips 1985: 19-20).

<sup>1000</sup> GDP levels are measured in 2007 US dollars, for which 2005 EKS purchasing power parities updated with aggregate deflators to 2007 have been used. These 2005 PPPs are obtained from OECD, [Purchasing Power Parities 2005](#), (Paris), November 2007

<sup>1001</sup> <http://ksghome.harvard.edu/~drodrik/TradePref.PDF>

These conclusions are based on 1995 data from the International Social Survey Programme (ISSP) – in particular the ISSP National Identity module, which proposed a ranking of country individuals' opposition and support for trade protection. The data set covers information at the individual level on some 28,456 respondents from 23 countries, including the United States, Canada, Japan, many Western and Eastern European countries, and one developing country (the Philippines).

<sup>1002</sup> Followed by the Japanese, the West Germans, the Norwegians, the Swedes, the Canadians, the New Zealanders, the Czechs, the Slovenians, the Slovaks, the East Germans, the Italians, the Philippines, the Irish and the Russians. Thus, the Brits only leave Poland, Spain, Austria, Hungary, Latvia and Bulgaria behind (there were no data for France). Another remarkable finding is that the continental European countries tend to be more free trade oriented than the former socialist economies of Central and Eastern Europe on several accounts – such as skill base, perceived benefits and threats. The United States, finally, is intermediate between these two groups of "old" and "new" EU members (Mayda and Rodrik, 2002: 9).

<sup>1003</sup> The English region in question is the North East; the ten subregions are Tees Valley and Durham (89.6) in the North East, Cumbria (95.3 %) and Merseyside (87.3 %) in the North West, South Yorkshire (94.9 %) in Yorkshire & the Humber, Lincolnshire (93.5 %) in the East Midlands, Shropshire & Staffordshire (97.9) in the West Midlands, Kent (99.2) in the South East, and Dorset & Somerset (99.5 %), Cornwall & Isles of Scilly (79.2) & Devon (97.0 %) in the South West.

<sup>1004</sup> The nation-state has retained a key role through modern history precisely because its "territorial state" part, far from being an immovable object, functions as a negotiation platform for rivaling aspirations of nationalism. In this regard, changing realities of local self-determination and geo-political dependence not only impact on the popularity at a certain time and place of different varieties of nationalism. They also impact on the particular "territorial state" platforms that are deemed most appropriate to embody a particular form of national compromise.

<sup>1005</sup> A complementary argument has been made by Smith (1986) and Weber (1976). These authors distinguish between different stages or emphases in the history of European nation-building: a stage "from state to nation" and a stage "from nation to state" path (Smith, 1986). The first, which can also be called the Western path, is exemplified by France: a dynastic center incorporates the periphery via military, educational, or infrastructural penetration and inclusion (Weber, 1976). The second path, the "latecomer" or Eastern path is exemplified by Germany: an elite-constructed yet linguistically or ethnically conceived nation (or "demotic ethnic") seeks to acquire its own state (Joppke, 1996: 3-4).

<sup>1006</sup> The earlier imperial settlement between a Prussian Protestant camp and a southern camp that preferred a *grossteutsche Lösung* to counterbalance Prussian dominance obviously had been heavily discredited.

<sup>1007</sup> Not surprisingly, this entity is reminiscent of the old "Mittel Europa" Habsburg confederation: a confederation of loosely allied core and peripheral regions, willing to give up or create State authority at the European level only in matters necessary to safeguard their preferred variety of nationalism.

<sup>1008</sup> Dinta – Deutsches Institut für Technische Arbeitsschulung

<sup>1009</sup> The German advantage compared to UK-situation at the end of the 1970s is that US culture in 1920s Germany was seen as relatively immature at that time (Nolan, 1994).

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<sup>1010</sup> In spite of Urwick's (1929) efforts, there was "no hint" that rationalisation meant anything new or, indeed, anything in particular. It could be equally used as defining "industrial efficiency", or "scientific management" (Bowie, 1931: 7).

<sup>1011</sup> At face value, West Germany was even more liberal than the UK. For instance, West Germany used remarkably little tax incentives to encourage export after 1955, reestablished free convertibility early and unilaterally reduced import tariffs to create international goodwill and improve the international standing of the Federal Republic, even to the point of seemingly prioritising commercial expansion in a liberal international economy over European unification (Katzenstein, 1977: 900). Indeed, for West German elites, the "spread of state interventionism and dirigisme in international economic relations" became the "nightmare" of their country's foreign economic policy (Kreile, 1977: 808).

<sup>1012</sup> The Ordoliberal credo, sometimes called the "Freiburg Imperative", associated the competitive order of market processes, well-established property rights and competition-promoting policies, with institutional pillars such as religion-based community orientation, confronting the disruptive effects of socio-cultural rationalisation, and a strong state with a high level of policy competence that is fit to reject the demands of special interest groups (Rieter and Schmolz, 1993, 104-7; Rittershausen, 2007).

<sup>1013</sup> This myth was enshrined in promises of a West German Wirtschaftswunder as early as 1952. Yet, as we saw (p.223-224), the social market economy was as much a case of "liberalism by default" than "socialism by default".

<sup>1014</sup> Households wishing to move from areas of high to low unemployment, for example from the Northern region to the South east not only would have had to pay substantially more for a house but also would have had to secure more remunerative employment to afford their housing needs. Conversely, few households would have been willing to move from high-to low-proce regions (assuming jobs were available) since they would have had to forgo opportunities for substantial capital accumulation, and might also have feared that they would be priced out of the house market should they wish to return.

<sup>1015</sup> Thatcher declared that Britain was an integral part of a regional sphere of English-speaking nations that embraces « liberty, christianity, industry and modernity » (Bennett, 2004 ; MacFarlane, 2000; Veliz, 1994). This Anglosphere is "more conducive to free-enterprise capitalism and thus to economic progress than others"...because it is based on a "Judaeo-Christian tradition" as opposed to "Asian religious traditions" and the "religious traditions of Africa" (Thatcher 2002: 418). And although many would argue that the European Union is as much a bulwark of the Judaeo-Christian tradition than the "Anglosphere", she argues that the European Union is doomed to fail because it has no shared cultural identity comparable to the Anglo-Saxon bond between Britain and the United States. In effect, Thatcher makes a very clear distinction between the nonconformist Anglosphere which is still inspired by a christian tradition and catholic Europe which has become a "Eurocracy" that is anti-Christian because it "commits the ultimate infraction of the First Commandment...worship of the State" (Thatcher, 1991: 509). In sum, the discourse of British exceptionalism that is used to induce the British public to embrace globalisation remarkably is based on the assumption of a pre-existing ethno-centric region: the Anglosphere.

<sup>1016</sup> Before the Second World War the strength of the East German economy had taken very promising proportions, with a per capita national come amounting to 103 per cent of West Germany, and an industrial labour productivity of 91 per cent of the West German level. Unfortunately, by 1991, these two figures had dropped to 31%.

<sup>1017</sup> That is, somewhat oblivious of the lack of British world leadership after the Suez disaster, the marginal role played by the pound sterling as world reserve currency, and the dominance of US monetary policy.

<sup>1018</sup> Economically, the EEC rested on a Franco-German "entente" which opened French markets to German industry in exchange fro Germany subsidies to French agriculture.

<sup>1019</sup> Social policy should be designed as Wirtschaftsordnungspolitik, that is, policy for maintaining a competition-oriented economic order, aiming at the preservation of the market process as the decisive precondition for the productive solution of all actually existing social problems (Ebner, 2006; Eucken, 1952: 312-3).

<sup>1020</sup> English banking was more domestically orientated – on English agriculture and industry – up to the 19th century than its continental counterparts.

<sup>1021</sup> For an elaboration of the relation between habits and problem-solving capacity – including the capacity to reinvent settlements – see Appendix A, section 1 (p. i).

<sup>1022</sup> Duisenberg had advocated against "imported inflation" (1970, Oratie ter gelegenheid van de benoeming tot Gewoon hoogleraar in de macro-economie aan de Universiteit van Amsterdam).

<sup>1023</sup> This was much to the chagrin of France, who wanted a French candidate. Still, a compromise was agreed upon whereby Duisenberg would serve for at least four years, upon which the Frenchman Jean-Claude Trichet, director of the Banque de France, would take over.

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<sup>1024</sup> Confronted with falling prices, interest rates and property values, building societies reacted by by maintaining mortgage rates. While this allowed them to attract increasing volumes of savings, falling property values and the rising volume of surplus funds meant that demand for loans backed by adequate mortgage security was inadequate to absorb the societies' funds. Hence, building societies extended their business into increasingly risky areas. Competition between building societies soared in the form of more generous advances against poorer security, an extension into increased finance of commercial enterprises and an increase in more purely banking business. Not surprisingly, as a result, many building societies ran into difficulties. The demise of the societies "Liberator" in 1892 and Birkbeck in 1911, shook investors' confidence in the building society movement. Following a further Building Societies Act in 1894, the boundaries of trustworthy building society business were more sharply delineated from other financial activities. This allowed the movement to recover its membership and asset totals by 1919.

<sup>1025</sup> Liberals not only criticised building Societies of a permanent character for failing to provide members with the same rights as other friendly societies; building societies' policy of renting houses rather than building them purportedly was in danger of discrediting the whole concept of a Building Society.

<sup>1026</sup> As a result, a given rate of building society interest represented a higher gross (of tax) rate when there was an increase in income tax rates, and it was this gross rate which was relevant to an income tax payer keen to compare the yields of alternative investments.

<sup>1027</sup> The intention of the arrangements was to save the Inland Revenue from routine clerical work in taxing or paying rebates to investors, many of whom did not understand income tax, but they also gave to building society members the advantage of a simple straightforward investment free from tax complications.

<sup>1028</sup> The arrangements began in 1895 and continued until 1932 – afterwards the same basic principles were retained on more informal grounds.

<sup>1029</sup> In sum, although building societies benefited clearly from certain taxation policies from the 1920s onwards, this was not the result of an active pro-home-ownership. Rather, fiscal advantages accrued to owner-occupation by fit-of-absentmindedness: for reasons of administrative simplification, and because home-ownership had become the only the only real option between the rent-option which the Liberal and Labour Parties eschewed and Labour's nationalisation option which the Conservatives abhorred.

<sup>1030</sup> The average shareholding shown in the industrial societies varied approximately from £250 to £700 at par whilst the average shareholding in the building society movement as a whole was £208. The returns for the average of the 47 large societies was even larger, and was actually £240.

<sup>1031</sup> The ability of co-operative banks to contribute to a public-private settlement in the Kingdom of the Netherlands was most clearly expressed by the way they managed to combine different systems of education to their advantage. On the one hand, co-operative banks piggybacked on the system of public agricultural education set up by the Liberal governments of the 1860s. This system provided Dutch farmers and co-operatives with education in the most advanced agricultural working methods and significantly boosted their capacity to compete on world markets. On the other hand, co-operative banks supported the private educational reforms obtained by Reformed Protestants and Catholics at the beginning of the twentieth century. As a result, they were able to hire personnel and cater to members who had already been socialised into the lifestyle most fitting to either the Protestant or Catholic circle.

<sup>1032</sup> Secularisation being a way to transform minority religious interests in the provinces into a more centrally manageable form of mass competition.

# 13 LIMITATIONS AND ISSUES FOR FURTHER RESEARCH

## 13.1 Summary chapter

In this final chapter, I discuss some methodological limitations and possible further avenues of research. First (13.2), I explain why ontological and epistemological features of history – its non-linearity (a) and the need for an enlivening narrative (b), have drawn me to make certain choices. Second (13.3), I discuss some further avenues of research. One empirical choice was to focus on banks (a); what if I had chosen firms in a different economic sector? This manuscript in many ways lies at the intersection of the institutional literatures on democracy and capitalism, albeit with a focus on firms. This begs the question (b): how can republican settlement theory be used to help bridge the gap between these two institutional literatures? Another consideration for further research is the relevance of republican settlement theory for developments in non-Western nation-states such as China (c). This last question is inextricably linked to a final consideration (d). Is the current focus of Western promoters of democratisation on formal ideal-types appropriate?

## 13.2 Limitations

### *a. Non-linear reality of history*

While writing and rewriting the chapters – in particular chapters 6 to 11, I have had to strike a balance between methodological rigour and the specific demands of historical narrative. Historical causality more often than not is non-linear. This reality is not always easy to reconcile with the methodological demands of analytical dualism. In other words, an uncompromising separation of structural and strategic effects over time – as advocated by Archer – to some extent stands in the way of a compelling historical narrative. Especially since the presentation of historical causality is most compelling when it draws on a counterfactual argument (Hawthorne, 1991). For instance, in this manuscript I have translated the plot of what actually happened in the Dutch financial sector to what could have been in the English financial sector and vice versa. Counterfactual reasoning implies first that one should systematically present historical “facts” at hand; and second that one should construct a plot that relates all these often disparate, and sometimes contradictory facts in an historical narrative of what could have been. Thus, the historical narratives in chapters 4 to 11 reflect a compromise between methodological rigour, systematic presentation of disparate historical “facts” – often cited interpretations of events and actions, and a counterfactual storyline that draws on comparative cases.

### *b. Not total history, but focused on “enlivening” reader and Popperian validation*

Several authors have pointed out the need to balance a comprehensive sense of history with a sense of proportion towards the practical use of historical understanding. Thus, Geyl noted in his discussion with Toynbee (1968: 47-48) that, while a “sense of history is absolutely indispensable” and “wisdom is to be gained from the study of the past”, history provides “no definite lessons for the actual problems of the present”.

Nietzsche takes a complementary viewpoint. Drawing on one of Goethe's mantras he underlines the need for a "proportional" historical sense: "I despise everything which merely instructs me without increasing or immediately enlivening my activity" (cited in Nietzsche, 1873: 1). Refuting his contemporaries' urge to deliver a total and complete history, Nietzsche argues that we should "serve history only insofar as it serves living". Thus, instead of going into every historical detail and demonstrating a total awareness of all things historical, it is more useful to build a thorough, yet "enlivening" historical narrative, with a counterfactual plot. This is exactly the road I chose to follow, although I am conscious of specialist historians' looming ire. In order to pre-empt accusations of an approach rife of imagination and short of disciplinary rigour, I would like to emphasise the centrality of a thorough application of analytical dualism in this manuscript; a methodology and application far more systematic in its assumptions and consequences than that applied by most specialists. At the end of the day, this makes this study more prone to Popperian validation than most historical studies – the litmus test of any scientific endeavour.

### 13.3 Issues for further research

#### *a. Firms in other sectors? Other traditions?*

In this manuscript I used historical perspective to tie a firm's success model inextricably to the success model of the nation-state or (nation-states) it is associated with. In particular, I focused on banks to demonstrate how six strategies of democratisation, applying republican principles, were and still are vital to these firms' long term success. But what if I had chosen firms from other economic sectors? It is widely acknowledged that banks are special firms in that they are critically important to the economic wealth, civic order and strength of the nation-states they are associated with (e.g. Goodhart et al. 1998). Yet, what if I had chosen retail firms, IT companies or other non-financial entities? Would the six strategies be as vital to these firms' success? Would these firms operate in a looser relation with the nation-states there are associated with? Would the same traditions of democratisation have surfaced if I had chosen another economic sector than the financial system? Or would the role of rivalling national traditions be less important for firms pertaining to sectors less central to the stability of a nation-state's domestic affairs and geopolitical position? For all these reasons, I have limited the title of this manuscript to "retail banks". Clearly, only further research will demonstrate the further applicability of republican settlement theory.

#### *b. Bridging gap between democracy and varieties of capitalism literatures?*

Can republican settlement theory be used to bridge the disciplinary gap between institutional literatures; the literatures on democracy and varieties of capitalism? I shall provide a first answer in the next paragraphs.

More than the literature on democratisation – which tends to differentiate between liberal-utilitarian versus social-communitarian modes of coordination in ideological terms, the varieties of capitalism literature (Albert, 1991; Hall and Soskice, 2001; Streeck and Yamamura, 2001) differentiates between national systems on contextual and historical grounds. A panoply of writers have analysed the nature of national systems, giving them different labels in the process: "economic policy paradigms" (Hall, 1986), "business systems" (Whitley, 1992, 1994), "national systems of industrial production" (Djelic,

1998), “varieties of capitalism” (Hall and Soskice, 2001) or “industrial policy paradigms” (Dobbin, 2004). My interest is not in discussing the different nuances in the work of each one of these academics. Rather it is in developing links between a strand in this literature which feeds in directly into the literature on democratisation, namely the liberal versus communitarian dichotomy.

Summarised quickly, according to the authors of the “varieties of capitalism” label (Hall and Soskice, 2001), in “liberal market economies” such as England, economic organisations coordinate their activities primarily via arms’ length market arrangements.<sup>1033</sup> In “coordinated market economies” such as the Netherlands, on the other hand, economic organisations depend more heavily on relations with political and civil society institutions that provide actors with a capacity for non-market deliberation.<sup>1034</sup>

How could the “democratisation” and “variety of capitalism” agendas inform each other? There are at least four potential complementarities between the two literatures. The first complementarity relates to the taken-for-granted notion of coordination modes in the varieties of capitalism literature. To paraphrase their argument, Hall and Soskice claim that different coordination modes historically have provided the best basis for sound economic growth in different varieties of capitalism. Given the strong emphasis by these leading authors on the role of actors within an economic framework, however, the “civilising” and “politicising” role of actors is given somewhat short shrift in their analysis of coordination modes.<sup>1035</sup> Other authors have of course paid more attention to the role of governmental or State-sponsored actors (e.g. Fligstein and Sweet, 2002) and civilising actors (e.g. Kristensen, 2005).<sup>1036</sup> What has remained underdeveloped, however, is a theoretical understanding of how the involvement of firms in not only dynamics of marketisation, but also dynamics of politicisation and civilisation, gives rise to or hampers the emergence of new coordination modes. Based on the findings in this manuscript, I argue that the emergence of coordination modes is one result of the more encompassing process of reaching democratic settlements. Especially in view of the following three points such a viewpoint makes sense.

The varieties of capitalism literature recently has taken a new turn, involving a research perspective more mindful of, on the one hand, change and conflict (e.g. Lane, 1995) and, on the other hand, the interplay of local, national and global levels of analysis (e.g. Djelic and Quack, 2003; Morgan, 2005; Sorge, 2005). The analysis of the interplay of logics of democratisation in this manuscript subsumes all these elements. For one, the notion of a republican settlement singles out the institutional possibility of rivalry and conflict, and interprets these elements as essentially involving a struggle between territorial and provincial dynamics. All in all the adoption of republican settlement theory could boost the shift which is currently happening in the varieties of capitalism literature: a shift from static classifications of business systems in terms of social-communitarian versus liberal-utilitarian properties, to a more dynamic focus on the emergence, decline or renewal of different firms and business systems over time.

Another potential complementarity between the research agendas of the democratisation and varieties of capitalism literatures lies in the elaboration of the notion of leadership. Following Barnard (1938), the problem of leadership can be conceptualised as containing two sub problems: a coordination and a cooperation problem (cf. Foss, 2001). Coordination problems are based on the following premise: given that different individuals or groups realise the need to act upon an issue, what is required to make them expect they won’t waste their time and efforts if they participate in projects of change – i.e.

make them expect sufficient significant others will participate, and the practical means to achieve change will be available (Chwe, 2003; Grandori, 1997; Hensmans, 2006; March and Simon, 1958; Weber, 2005). Questions of coordination thus involve the leadership issue of convincing people to sign up to a change project which the latter also see a need for, but heretofore did not have the practical means to engage with meaningfully yet. Generally speaking, resolving coordination problems requires a vanguard of leaders, a minority, to set an inspirational and practical example.

Contrary to coordination problems, cooperation problems arise from assumptions of self-interest and opportunism between groups (Axelrod, 1984; Camerer and Knez, 1996, 1997; Heath and Staudenmayer, 2000). Questions of cooperation involve the leadership issue of convincing people to sign up to a change project which they do not necessarily think is in their interest. Resolving cooperation problems therefore is a matter of instituting new incentive and distribution mechanisms that diminish tendencies of self-interest and create a common interest across groups, encouraging followers with different agendas to consent or acquiesce to a change project. Obviously, coordination and cooperation problems are interrelated issues. Their resolution depends on a majority of people signing up to the change project, be it in terms of solving a coordination or a cooperation problem.

As mentioned before, the varieties of capitalism literature has mainly focused on classifying existing solutions to coordination problems, and distinguishing them on liberal-utilitarian versus social-communitarian grounds. Little attention has been paid either to the difference between coordination and cooperation problems or to the complementary nature of solutions to coordination and cooperation problems. The democratisation literature, for its part, does not deal explicitly with the language of coordination or cooperation problems, but generally distinguishes between liberal versus communitarian polities on the basis of their allegiance to respectively majority versus consensus democracy properties. Majority democratisation allegedly work best in “liberal” countries such as England, while consensual democratisation are deemed functional in more “communal” countries such as the Netherlands (cf. Lijphart, 1984). This argument has policy implications in terms of how to deal with minorities. In majority democracies, dynamics of contestability and mobility between the established majority and new minorities is resolved in the following way: minorities have no choice but to either significantly influence or comprehensively adapt to the will of the established majority – unless they accept to be excluded from democratisation process altogether. In consensus democracies, on the other hand, the opinion of all minorities as a rule is represented, albeit often in a diluted way that is not threatening to the establishment.

How does the research agenda put forward in this manuscript bridge the varieties of capitalism and democratisation literatures in this regard? I maintain that the distinction between majority and consensus democracies is overstated. English and Dutch firms, as other nation-state actors, face the same challenges to be successful. English and Dutch firms have to contribute to a democratic settlement. While the traditions underlying such settlements are different for English and Dutch firms, both English and Dutch settlements involve a combination of minority and consensus strategies of democratisation. The failure to notice this commonality between English and Dutch firms is grounded in several blind spots: a failure to identify different contextual expressions of voice and exit – different traditions of how to legitimately obtain State interventionism and ensure civic or economic autonomy<sup>1037</sup>, an over reliance on formal expressions of democracy – such as majority versus consensus cabinets, and a failure to distinguish between coordination and

cooperation problems. Throughout this thesis, I have shown that the distinction between “minority” and “consensus” strategies of democratisation maps directly on the respective problems of coordination and cooperation. As noted above, the first strategy entails building a coalition of challenger and incumbent actors competent to set a leadership example, and change political, economic, and civic modalities of contestability and mobility to accommodate new minorities. The second strategy entails tempering rivalries between all groups – established and minority groups – through the distribution and alignment of incentives.

Finally, there is a fourth way republican settlement theory could help to bridge the disciplinary gap between the literatures on capitalism and democracy. If one really takes the discussions on loose versus tight path-dependence (e.g. Morgan, 2005), and the relation between political, civic and economic factors seriously, there is a need to further historicise democratic settlements, i.e. complementary modes of coordination and cooperation. The empirical opportunity has to do with the discrepant assumptions employed in historical studies of, on the one hand, capitalistic modernisation, and, on the other hand, democratic modernisation. During the last decade or so, studies of the development of capitalism have taken a new historical turn. While in the original account economic modernisation was associated with the rise of industrialisation in 18<sup>th</sup> and 19<sup>th</sup> century Britain, dynamics of financial development from the 16<sup>th</sup> century onwards – in the Dutch Republic and later Britain – are now considered the real starting point of capitalistic modernity (cf. Sylla, 2000). As mentioned above, the same historical turn has not yet been made with regards to the literature on democracy. On the contrary, the predominantly Anglo-Saxon view still is that democratic modernity started in industrializing Britain and its cousin the United States in the first decades of the mid-19<sup>th</sup> century, to be followed by first Western European industrializing countries and later industrializing parts of Eastern and Southern Europe.

The discrepancy in historical starting points raises the question whether capitalistic modernity did not involve a measure of democratisation from the earliest periods onwards. Did democratisation really only start after the emergence of nineteenth century nation-states, and not a few centuries earlier, concurrent with capitalistic modernisation? The distinct opportunity for the literature on varieties of capitalism here is to take this last question seriously, and study the emergence of varieties of coordination and cooperation modes – democratic settlements – from as early as the sixteenth century onwards.

*c. Relevance beyond the West of “republican settlement” theory*

Does the theory presented in this manuscript bear any relevance to non-Western nation-states, such as China?<sup>1038</sup> Obviously this question deserves more than passing attention and should be treated as an issue for further thorough research. Nevertheless, I shall formulate a tentative answer here. The question can be answered from at least three viewpoints. First, is the West – i.e. Europe and its offshoots – in decline? Second, to what extent has an emerging nation-state such as China already adopted elements of Western republican theory? Third, in what respects are Chinese traditions structurally different from their Western counterparts? All three questions are not new at all, which gives us the opportunity to look for answers in past historical tendencies.

If the West were in terminal decline and in danger of being surpassed by emerging powers such as China and India, the theory presented here would have little relevance beyond historical perspective. Fortunately, the decline of the West has been

announced rather prematurely on many occasions, for instance in the 1920s with the then rather authoritative reading of history by Spengler (1926-1928). At the end of the day one may argue that the perpetual fear of being corrupt and in decline is one of the ingrained dynamics of Western republican practice; a dynamic that in the modern era may have saved the West from the very decline it so fears. Clearly, even now the decline of the West is predicted by manifold pundits, and China and India are being hailed as emerging super powers, the only available paradigm for gaining world influence akin to Europe and its off-shoots remains republican theory. That is, the theory of democratisation premised on the principles of non-domination and complementary personality and territoriality principles. The only other alternative is worldwide acquisition by force, an unlikely option in a world ruled by a nuclear balance of power. In sum, by default of an overwhelming monopoly of force, emerging nation-states that want to acquire world influence akin to Europe and its off-shoots will have to develop republican traditions as a starting point.

Of course, instead of opting for world influence, non-Western nation-states such as China may opt to become “super regional powers”, and buffer themselves geopolitically from overbearing Western influence. China is doing exactly that. And that is not surprising, given the country’s almost obsessive search for continuity in the past 23 centuries – long before the emergence of modern republican traditions in Europe and the US. In spite of having undergone possibly the most turbulent twentieth century of any country in the world<sup>1039</sup>, what stands out even now is the remarkably continuity of the Chinese success model since the landmark settlement of the 3<sup>rd</sup> century BC. This success model is based on the Sino-centric imperial myth of a “Middle Kingdom” that leaves room only for patriotic loyalty, not for autonomous nations seeking to modernise their relation with a State. Indeed, rather than nationalism per se, the concept of “state-centred nationalism” or “patriotism” – the Chinese “aiguozhuyi” which means the “ideology of loving the country” – most appropriately denotes the concept of Chinese national identity (Choe, 2006; Fairbank, 1986; Fitzgerald, 1996a and b). To ensure the viability of this state-centered patriotism, Chinese leaders have alternated long periods of relative isolationism with episodes of temporary collaborations for the sake of self-preservation – as under the Han dynasty and throughout the period of the “Unequal Treaties” (Hunt, 1996: 8). This explains why Chinese foreign policy seems to perennially alternate between unquestioned superiority and an almost slavish self-loathing (Barme, 1995: 219).

Given the above, how can we explain China’s apparent turn to “liberal capitalism”? I have demonstrated that the liberal tradition historically has been used for geopolitically opportune reasons – the creation of universal legitimacy and the preservation of continuity with prior empires. For instance, the liberal rhetoric adopted by the US government amounts to nothing else than an amalgamation of reinvented national traditions of democratisation, which, for reasons of worldwide commercial expansion and continuity with the Pax Britannica were coined “liberal”. This is a first reason why an embattled post-Mao regime decided to accede to the WTO and open up to capitalistic dynamics in the 1970s. Also, there is a clear parallel with the Federal Republic of Germany’s post-WWII turn to liberal capitalism. When German Ordoliberalism in the end did accept the necessity to adhere to a measure of non-interventionism in the name of US-style liberal democracy, they did this to safeguard as much as possible of the authority structures inherent in age-old German traditions. In other words, appearances of liberal capitalism were accepted to protect one’s actual goal: to preserve the viability of one’s own traditions, and buffer oneself from overbearing foreign domination in the process. In

effect, one can state that China since the late 1970s is following the exact same strategy. Of course, one major difference between Germany and China is that the former's traditions for many centuries had developed in a more republican direction than the latter's.

This brings us to the question to what extent Chinese traditions are structurally different from their Western counterparts. In chapter 1 I noted that city-states are the geopolitical environments most prone to the development of a republican personality principle; for city-states possess a measure of political autonomy and territorial privileges granted by charter. Yet, as Max Weber has long remarked, cities in China and other parts of Asia, unlike those in the West, did not develop a tradition of city law, political association of merchant and craft guilds backed up by independent military power, or privileges granted by charter. While the rise of modern states and capitalism in the West is inseparable from the rise of city-states, in China cities often were the planned administrative product of the Imperial State (Weber, 1983: 59-61). The only exception to this Chinese rule were the cities under Foreign Concession in the late 19<sup>th</sup> and early 20<sup>th</sup> century. The British and French stance on freedom of association, press and speech, ushered in the Chinese bourgeoisie's Golden Age in 1920s Shanghai, which arguably boasted China's most vibrant civil society (Bergere, 1986).<sup>1040</sup> Does the experience of Shanghai mean China has adopted a city-state tradition in which the personality principle can flourish? Paradoxically, the very existence of a personality principle in Shanghai made it attractive to the leaders of the New Cultural Movement, who ultimately turned it into the new cradle of State-centered patriotism. After WWII, the clock was turned back in Shanghai to the pre-foreign concession period. And the personality principle again was reduced to the State-led rhetoric that China is a multi-ethnic, multi-nation country in which no ethnicity or nation is superior to another.

Given all the above, does it make sense for Western countries to relentlessly push the Chinese government to adopt more Western democratic traits? The answer is negative in so far that it could overly weaken the central government and force it into humiliating concessions. After all, it was not only China's pre-modern experience of preventing turmoil between different warlords and ethnicities that has led its leaders to obsessively hold on to a form of state-centered patriotism. It also was the very threat posed by encroaching Western powers; as evidenced by the 1911 Chinese Revolution and the 1949 Chinese Communist Revolution<sup>1041</sup>, both reactions to the "humiliating" Foreign Concessions (Kim and Dittmer, 1993; Karl, 2002). What is more, the Western threat is more pronounced now than during the pre-WWII decades of British domination. While the latter was based on co-opting local allies and clients, the current US Empire is far more assimilationist (cf. Lieven, 2002), which poses an existential danger to an equally assimilationist Chinese State apparatus.

One historical lesson of Western proselytising about democratisation in China is that it almost unavoidably ends with the re-nationalisation of assets and people. What is the particular nature of nationalisation that looms large on Western businesses in China? At some point, when the balance between Chinese geopolitical confidence and the influx of Western firms and traditions becomes fraught, the dream of the "Promised Market" will founder again and a new wind of patriotic revolution will blow over China. This is exactly what British and French companies experienced in the post-WWII years. After WWII, the Chinese authorities in retribution for a "hundred years of exploitation" by the Westerners<sup>1042</sup> employed subtle methods to achieve expropriation of foreign assets.<sup>1043</sup> Riding on the waves of a new national revolution, the government set in motion a process

of “reverse compensation” in which private foreign businesses were now made to work for the public Chinese interest (Boardman, 1976; Shai, 1989, 1997: 172-173, 175).

Before WWII, Chinese leaders had long argued that their people were not ready for democratisation. Yet, after WWII, when most foreign assets were re-nationalised, the revolutionary government translated Western slogans of “democratisation” and “enterprisation” in its own terms. “New democracy” was to be a transitional stage between the democratic revolution and the building of new imperial state. The sizeable private enterprise sector was allowed to remain in existence during this transition stage; although the state-owned sector of the economy was to “exercise leadership” over the private sector and assist it in its transformation (Brugger, 1971: 10).

At the end of the day, the biggest problem for the US is that, while its leaders tend to favour shock therapy as the platform for revolutionary change, all episodes of revolution in China have proved to be no more than Australian bushfires which provided conditions for the same sort of regrowth (Brugger and Kelly, 1990: 29-30). Another problem for Western proselytisers of liberal democracy is the pervasiveness of orthopraxy in Chinese patriotism, which implies that doing the right Chinese thing is more important than actual initial belief – in the confidence that behaviour will change thought (cf. Watson, 1993: 84). In other words, most Chinese will do the right “communist”, “capitalist”, or “democratic” thing as long as it serves the Chinese patriotic interest, not by virtue of actual belief or independent thought. Liberal capitalism may well mean very little in terms of substantial beliefs for most Chinese.

Clearly, if the West really wants the Chinese to break through the vicious circle of isolationism and temporary collaborations for the sake of self-preservation, they should tone their rhetoric of liberal democracy in dealings with the Chinese central government – particularly publicly. After all, the Chinese central government has adopted measures of liberal capitalism in the 1980s primarily as an ideological and regulatory control substitute; i.e. to replace the declined belief in Marxism and Maoism that in previous decades had provided the national government with its most powerful tool to regulate and subordinate local society (Zheng, 1999; He and Guo, 1999; Sautman, 1997). Instead of focusing on the central government, *Western investors and governments should try to subtly influence local authorities and societies in China*. After all, local society is the principal agent of change and tradition-building in China (Krug and Hendrichske, 2008). Westerners should not try to induce change by bombarding local people and dignitaries with the ideology of liberal democracy, but by paying tribute to the principles of non-domination and contestability in their daily business dealings. For instance, by trying to treat local employees as well as they would Westerners, with respect for local traditions. Anything less would provide central leaders with patriotic ammunition to perpetuate their rule “by the very few over the very many” (Fairbank, 1986: 21). Or it could induce a new national revolution aimed at erasing overbearing concessions to the West, spelling the beginning of another episode of isolationism, or worse, war.

**d. *The misguided focus on formal ideal-types of Western democracy***

Clearly, there is no better way to point out the limitations of ideal-types of high modernity for non-Western countries than by demonstrating the continuing, central relevance of centuries-old traditions in prototypical Western nation-states such as the Netherlands, England and the US. This is what I have attempted to do in this manuscript. Following this, an issue for further research is whether the contemporary literature overemphasises the less important attributes of Western democracy, i.e. those pertaining to

the realm of apparent realities rather than deeper mechanisms such as traditions. Would formal ideal-types of Western democracy such as the universal suffrage, or the protection of equal opportunity through a secular rule of law, have taken root if it were not for the successful reinvention of centuries-old traditions of democratisation? My findings hint at a negative answer. For instance, in the Netherlands ideal-types such as the proportional electoral system and a secular rule of law emerged as by-products of the reinvention of traditions of proportionality, living-together-apart, pacification and Orangist democracy by confessional parties from the late nineteenth century onwards. Since the 1970s, it has become common practice for political scientists to deride the democratic quality of these “consociational” traditions, particularly given their confessional, paternalistic origins. Nevertheless, if it were not for the reinvention of these traditions in a more modern guise during the 1980s, the 1970s Dutch disease would not have been transformed in the 1990s Dutch miracle.

In sum, one can wonder whether ideal-types of democracy would not rapidly become discredited as empty shells in the 21<sup>st</sup> century if it were not for the continued reinvention of such traditions. For instance in chapter 10 I have demonstrated how centuries-old English traditions were sidestepped during the 1980s and 1990s in favour of a high modernity myth of liberal capitalism. The marginalisation of these traditions – which started before WWII – has coincided with a very significant decrease in the electoral turnout since 1950 (p. 351-352), and a “shocking” decline in levels of political participation. According to “The Economist 2007 index of democracies”<sup>1044</sup> Britain’s score in the area of political participation is the lowest in the West and is reflected across all dimensions – voter turnout, membership of political parties, willingness to engage in politics and attitudes towards it. Maybe it is time to focus more on the reinvention of old traditions of democratisation, and less on high modernity appearances.

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<sup>1033</sup> These market relationships are characterized by the exchange of goods or services in a context of competitive price signalling and formal contracting. The State in such a system allegedly only operates to guarantee a degree of stability and fairness to competitive economic associations and markets.

<sup>1034</sup> Examples of such institutions are business or employers associations, strong trade unions and State-sponsored regulatory systems designed to foster collaboration. These institutions provide means for extensive communal rather competitive relationships.

<sup>1035</sup> This is quite remarkable, given Hall’s (1986) comprehensive study of British historical modes of governance, which somewhat hinted in this direction, especially with regards to the relation of economic actors with political parties or pressure groups.

<sup>1036</sup> In particular, in contrast with for instance Cable (1995) who maintains that States are losing authority in face of globalization forces, authors such as Mann (1997) have long been arguing for their continuing significance in transnational – e.g. regional (Ohmae, 1995) – and international networks.

<sup>1037</sup> For a comparison of different forms of desired and undesired State interventionism in the US, Britain and France, see p. 354-355. For more on different expressions of voice and exit in Dutch and English traditions of democratisation, see p. 389-390.

<sup>1038</sup> And what to say of India, that other emerging “super power”? One comparison that is worthwhile making, is that between India and the European Union. More even than the EU, India is a virtual democratic entity lacking the prospect of a unified constitution. Much more than the European people, the Indian people is an exclusively administrative category. India is civically, politically and economically more diverse than the EU. While there was a time when India was “studded with republics” (Mehta, 1997: 92), this is a far bygone era. What hopes are there of making a federal republic out of small republics that are so detached from their roots? Worst of all, India has a central federal administration that formally dominates in a much more “despotic” way than the EU commission or Council has ever done, or could imagine to do, while most substantive power is decentralised. India’s formal dictatorship in the mid-1970s was thrown out without significantly altering very much for very long. The central government, acting on the basis of a constitution and procedures which have been given the formal democratic fiat by Western observers, can pass all sorts of laws for moral effect without expecting them to be carried out. In

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other words, the existing constitution has little substantive effect on local populaces. Substantial politics has always been and largely remains the preserve of local communes, and thus is occasionally violent to a pre-modern extent. At the end of the day, the Indian people can vote and remove the government, but republican traditions of non-domination do not spread because cynicism about the central government prevails (Brugger, 1999).

<sup>1039</sup> At the turn of the twentieth century, China was ruled by the Qing dynasty, heir to an imperial tradition that can be traced back to the 3rd century BC. By the end of the century China had experienced three major political revolutions, and six major developments:

- (1) The 1911 Revolution, which overthrew China's last imperial monarchy and established a republic;
- (2) The May Fourth Movement in the 1910s and 1920s, a cultural-intellectual movement that also marked the beginnings of a mass nationalism and resulted in the creation of the Chinese Communist Party;
- (3) The Nationalist Revolution of the 1920s and establishment of China's first party-state under the Guomindang (Nationalist Party)
- (4) The communist-led rural revolution of the 1930s and 1940s that ushered in the People's Republic of China in 1949
- (5) Mao Zedong's 'Chinese Road to Socialism' in the 1950s and 1960s
- (6) The economic, social and political changes of the post-Mao period after 1976.

<sup>1040</sup> Throughout the first three decades of the 20th century, both the growth and shares of modern industry and services in China were disproportionately concentrated in Shanghai, which alone produced about 40% of the national manufacturing output (including Japanese-controlled Manchuria) in 1933; housed 50 to 60% of cotton spindles throughout the 1910s and 1930s; and generated about 50% of the national electricity output in the 1920s. In 1931, Shanghai absorbed 34% of total foreign direct investment (FDI) in China and 67% of FDI in manufacturing; handled more than half of China's foreign trade and one fifth of its shipping business throughout 1896-1936; and boasted of 47.8% of the national financial capital in 1936 (Ma, 2004, 2005).

<sup>1041</sup> Arguably, the communist leader Mao driven less by the desire to prompt world revolution, than by a wish to "revive the national confidence and self-respect that had been lost during a century of foreign humiliation". (Hsü, 2000: 660). Thus, in contrast to the image the Communists developed in propaganda of a 'clean sheet', many aspects of the People Republic of China were consistent with its predecessor Republican and Imperial states.

<sup>1042</sup> Sometimes called the Western Rong meaning "Western Barbarians", Middle Persian: Xiyon, (Hiun/Hion)) were the westernmost branch of the Hunas, a nomadic tribe prominent in Transoxania and Bactria.[1] These "Western Barbarians" were the original "White Huns" according to the eastern order of cosmic precedence which the central Asian nomads observed [1]. Chionites had arrived in the mid-4th century with the wave of immigration from Central Asia

<sup>1043</sup> The Chinese method of "protracted expropriation" in relation to foreign property was much subtler than its Soviet equivalent, in that the Chinese ensured that no claim for compensation could be made even in the distant future. Thus, the Chinese government gradually managed to get its hands on some of the most modern and prosperous foreign businesses in the country, without incurring either the ire or the financial liability of outright confiscation.

<sup>1044</sup> This index focuses on five categories of democracy: elections, civil liberties, functioning government, political participation and political culture. According to this index, Sweden is a near-perfect democracy, coming top of all countries in the world. The Netherlands comes third and the UK 23rd. More surprising are the relatively modest scores for two traditional bastions of democracy—Britain and the United States. In America there has been a perceptible erosion of civil liberties related to the fight against terrorism. Long-standing problems in the functioning of government have also become more prominent. In Britain, too, there has been some erosion of civil liberties but also a shocking decline in political participation.

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# APPENDICES

## Appendix A: Supplementary explanations

### 1. Antecedents to the Dutch rivalry between Regents and Orangists

The unification of the Low Countries<sup>1045</sup> – the northern and the southern Netherlands – started at the end of the fourteenth century, when the dynasty of Burgundian and Habsburg princes acquired control over Flanders and Brabant, and a few decades later over Holland.<sup>1046</sup> This happened in a rather pacific, mutually agreeable fashion. Flanders, Brabant and Holland felt a growing need of supra-provincial leadership and protection in a geopolitical landscape of increasing territorial consolidation and rivalry. Besides providing military help, the Burgundian-Habsburg authorities were increasingly called upon to help mediate the settlement of economic issues (Van Gelderen, 1992: 16-18). The seat of government – the so-called States-General<sup>1047</sup> – was established in Brussels as a geopolitical compromise. Through the fifteenth century, the States-General remained a largely ad hoc institution, representing the particularism of each province. As the Low Countries did not have one clear center of influence, the Burgundians found it very hard to control the relation between State development, civilisation and economic growth<sup>1048</sup>, especially given the exceptional rate of urbanisation of the core provinces Flanders, Brabant and Holland<sup>1049</sup>. Popular opinion in these cities was led by a merchant class, aspiring to a city-state status.<sup>1050</sup> Still, through techniques of patronage and venality of offices, the Burgundians to some extent managed to overcome the forces of provincial particularism and keep the Low Countries together (Prevenier and Blockmans, 1984).

In particular, the Burgundian duke kept aloof from Holland's Baltic wars and geo-politics. Even if these politics clashed with the interests of the southern provinces of Flanders and Brabant, this was the only way to accommodate Holland within the Burgundian state. Thus, a north-south divide characterized the Burgundian Netherlands, epitomised by a province of Holland in which a clear hierarchy of public office was soon installed. More than in other provinces, in Holland the influence of the guilds and civic militias was curtailed.<sup>1051</sup> Instead, a rather small Regent oligarchy ruled, based on paternal political rule and multiple arrangements among family heads. This oligarchy, in collusion with Orangist stadtholders, ultimately would provide the foundations of the Dutch Republic's "familial State" (Adams, 1994). Meanwhile, it returned the Burgundian duke's favour of granting special privileges to the province of Holland by promising to provide stability, administer justice and collect taxes in his stead. What is more, contrary to their purported "freedom-loving" motivations, Holland Regents provided the military and financial support to subdue the provinces of Gelderland, Overijssel and Utrecht. A small group of noblemen in the southern provinces – among which the ancestors of the later princes of Orange – had advised the Burgundian dukes to adopt such a tit-for-tat policy with Holland. Part of the deal was that Holland – as the other provinces – had to accept the residence of a Stadtholder in charge of choosing burgomasters and magistrates.<sup>1052</sup>

In 1482, the Burgundian inheritance passed to the House of Habsburg, which from 1452 also had secured the title of Holy Roman emperor. Paradoxically, the progress of central imperial development under the Habsburgers, and especially Charles V who completed the territorial unification of the Low Countries by 1543, proceeded hand in hand with the strengthening of the provincial States. Under a tit-for-tat agreement, territorial

unification was conditioned on the possibility of a burgeoning commercial economy and an inveterate tradition of local privileges. As a result, the burghers who sat in its provincial parliaments probably had more political leverage than in any other princely state in Europe. This had one important geopolitical advantage. In an era of transition between medieval city-states and proto-modern nation-states, the expansion of the public debt principle pioneered by city-states could best be undertaken by provincial parliaments whose territories were intermediate between city-states and nation-states both in size and in the difficulties of political and civic integration<sup>1053</sup>. In coordination with successive Habsburg governors, the provincial States launched the fiscal innovation of provincial annuities.<sup>1054</sup> These soon became widespread; the balance of power between imperial rulers and provincial Regents provided potential creditors with assurances of a more regular payment of interests than for instance in France, where such a balance of powers did not exist (Tracy, 1985: 109-100, 213, 20).

Nevertheless, cracks started appearing in the relation between the prince and the provincial States when the conflict between Habsburg and French rulers reigned in the 1540s. Faced with a desperate need for cash with which to pay the army, the Habsburgers subjected all provinces to higher levels of taxation, recruiting etc... The temptation for Charles V and his successor, Philip II of Spain, to overburden the wealthy city of Antwerp – the hub of Europe’s rich trades – and the relatively prosperous Amsterdam – the emerging European hub for Baltic bulk-carrying and fisheries – was enormous, especially given the rapidly declining economic soundness of Spain. In the end Habsburg officials imposed a more extensive use of annuities on especially Holland, an unwilling province. Not surprisingly, the escalation in fiscal and military pressures had the effect of renewing deep-seated resentments over the centralisation of State authority in the Low Countries. The restlessness of the once loyal nobility, the objections coming from part of the Holland Regents, and the rapid advance of Protestant humanism compounded the problems of the Habsburgers. Despite extensive mediation efforts by the Prince of Orange<sup>1055</sup>, who tried to reconcile the centralisation tendencies of Habsburg officials and the protestant radicalism of town ministers, a “civil war” broke out in 1566 which was soon termed the “Dutch Revolt”. During the Revolt, the Dutch Republic became a confederation of 7 provinces – Holland, Zeeland, Friesland, Groningen, Utrecht, Gelderland and Overijssel. In this Republic of United Provinces, towns were autonomous to a degree that was unusual when compared to states like England, France or Prussia<sup>1056</sup> (Prak, 2000: 343). The absence of a confederal leadership tradition meant that the new Dutch state had to invent ways to coordinate the aspirations of the seven provinces, and that potential free-riding problems were vast.

## **2. Resolving Dutch leadership problems: the Regent and Orangist traditions**

Two types of traditions of democratisation emerged during the late fifteenth and sixteenth centuries, and crystallised during the Revolt: the “Regent” and “Orangist” traditions of democratisation. Framed in terms of respectively economic interests and civic ideals, and the threats to local privileges posed by foreign invasion and war, Regent and Orangist discourse contributed to bringing the disparate variety of Dutch towns and provinces together. Three institutions in particular held the Dutch Republic together, the first two a reflection of the rivalry between the Regent and Orangist traditions, the third a reflection of Regents’ and Orangists’ willingness to compromise and settle their differences. First, there was the practice of provincial parliaments which, in particular in

the merchant province of Holland, symbolised the primacy of city-state autonomy. Second, there was the practice of choosing a stadtholder in the different provinces, an honour which mostly fell to the heirs of the family of Orange. Finally, there was the unifying institution of the States-General, which existed before 1572 as the representative body of the seventeen provinces of the Habsburg state, but was reestablished in 1579 as a body of the new coalition of provinces. Most provinces were represented in the States-General through a balance of nobles, who represented the countryside, and the enfranchised towns. Holland, on the other hand, was represented by an overwhelming urban majority, eighteen town versus one countryside representative (Israel, 1979).

The States-General successfully functioned as a vehicle to resolve leadership problems for two reasons. On the one hand, States-General representatives were careful to restrain their own powers to what both Orangist and Regent groups considered to be matters of absolute urgency and need. On the other hand, the States-General devolved as much authority as possible to Regent and Orangist groups. On the first point, as long as the urgency of war and economic expansion dominated, the States-General held almost exclusive authority in the area of foreign policy. This helped greatly in forcing through unpopular military and fiscal decisions. On the second point, the fact that ultimate impetus and responsibility for these decisions lay with the Regent and Orangist groups helped to maximise grassroots support during the implementation phase of these decisions. So, the stimulus for economic and fiscal expansion came especially from the Holland Regents, who did not shy away from carrying the heaviest burden in this regard. And as Orangist groups in the other provinces also profited from the Regents' investments, their representatives agreed to contribute to a small share of the fiscal burden. On the other hand, the impetus to maintain a strong army based on civic militias and a strong Church based on a monopoly of public functions came mainly from the Orangist groups. The Holland Regents, for their part, profited from the strength of the Orangist army and the order provided by the Dutch Church, and eagerly piggybacked on anti-papist ideology to promote mercantilist expansion. I shall now further elaborate on the origins and salient characteristics of the Regent and Orangist traditions. I summarise these characteristics in table A.1.

a. Regent traditions: origins and salient characteristics

During the sixteenth century, prince Philip decided to reinforce ecclesiastical control in the Low Netherlands, by restructuring it along the lines of new (arch)bishoprics. This move spectacularly backfired in the more protestant city-states of the Low Countries, in particular in the Holland province. In Amsterdam, a group of Regents emerged – mainly ministers and merchants. This group openly resented the “old corruption” and foreignness of the Catholic clergy (Israel, 1995: 25-39; 128) which threatened to put limits on economic and religious freedom. While the alliance between merchants and ministers was awkward, it did work very well. Merchants' practical focus on monetary wealth was complementary to the more ideological outlook of the Dutch ministry, which idealised economic expansion because it was connected with the struggle against Habsburg domination in particular and anti-Papist ideology in general<sup>1057</sup> (Riemersma, 1967: 84). During the Revolt, town ministers and lawyers had constructed an ideology of liberty, with freedom of conscience, constitutional charters, representative institutions and popular sovereignty as its main defining factors (Van Gelderen, 1992: 272-273). Given their merchant spirit, most of the Regents envisioned good government in less radical terms,

however: public order, economic wealth and the inviolability of their own class privileges<sup>1058</sup>.

**Table A.1: Regent and Orangist traditions of democratisation**

Regent	Orangist
<p>1) <u>Democratisation ideal-type:</u> - city-state oriented (Holland)</p> <p>2) <u>Market:</u> - Virtual money (open stock exchange)</p> <p>3) <u>Civil society:</u> - « freedom of conscience » - education: secular and independent</p> <p>4) <u>Politics:</u> - <i>Parliament:</i> based on assumption that polity consists of minorities and that only a « qualified » majority is feasible  - <i>Government:</i> Representative of city-state interests and principles « no taxation without representation » and “those who stand to gain from a service provided by the state should pay for it”</p> <p>5) <u>Corruption:</u> - Lack of world-orientation, business autonomy</p> <p>6) <u>Solution to leadership problems:</u> - tradition of “<i>City monetarism</i>” - tradition of “<i>living-together-apart</i>” - tradition of “<i>proportionality</i>”</p>	<p>1) <u>Democratisation ideal-type:</u> - country-oriented (outer provinces)</p> <p>2) <u>Market:</u> - Real money (domestic produce and land)</p> <p>3) <u>Civil society:</u> - « concord » provided by « religion, freedoms and property » - education: Dutch Reformed</p> <p>4) <u>Politics:</u> - <i>Parliament :</i> based on assumption that all minorities find unity in central state  - <i>Government:</i> Representative of natural functional order</p> <p>5) <u>Corruption:</u> - Lack of patriotism and bigger social-economic picture (narrow financial capitalism)</p> <p>6) <u>Solution to leadership problems:</u> - tradition of “<i>pacification</i>” - tradition of “<i>Orangist democracy</i>”</p>

The Regents presented themselves as the superordinate trustees of the people, and held on to a pragmatic tolerance for other ideas and groups – such as the Catholics, defying the Revolutionary legacy of dogmatic calvinist militias (Kickert, 2003a: 119).<sup>1059</sup> Their alleged pragmatism notwithstanding, most Regents were adamant that the principle of sound finance they had championed – City monetarism<sup>1060</sup>, later also labeled “Regent capitalism”, should be shielded from encroachment of the less commercially and financially orientated outer provinces. One way to achieve this was by championing the principle of “living-together-apart” (e.g. Bax, 1988: 82). This principle enabled “mutually interdependent social and political groups to maintain their autonomy to a perceived optimum, within the framework of a national sovereignty.”<sup>1061</sup> In more practical terms, living-together-apart translated in the principle that personalistic allegiances – whether to one’s city-state, province or religion, would remain at least as authoritative as territorial State or Church tendencies. In 1587 the States of Holland accepted a position paper<sup>1062</sup> which claimed that with the abjuration of the Habsburg emperor popular sovereignty had devolved on the provincial States. In Holland, this meant that sovereignty was devolved to a “commonwealth of burghers” (Goudsblom, 1968: 15-16), i.e. the communities of merchants and traders that flocked to the Amsterdam and Rotterdam city-states.

Although provincial sovereignty remained a contentious issue for the Orangists, who strove for a greater centralisation of power, this principle became accepted practice regarding fiscal and general economic issues in the States General. One notable result of this agreement was that often less than ten per cent of the money employed by the central institutions was raised directly by the States-General (‘t Hart, 1993, p. 86). The rest was provided by the provincial states. To prevent endless negotiations about the distribution of the tax burden, the Holland Regents in 1583 had proposed a system of fixed quotas, which attributed certain relative weights to each province's contribution to the central treasury. Until 1594 only Holland, Zeeland, Utrecht and Friesland were paying; by 1616 the other provinces had also been fitted into the system. By all means, the quota distribution underlined Holland's supremacy in the Republic: Holland paid 58 per cent of the total<sup>1063</sup>. The great advantage of the quota system was the substantial freedom it gave to every province to decide how to collect and invest its fiscal revenues. Holland relied mainly on excises levied on market transactions, whilst rural provinces preferred to tax income from landed property. The main disadvantage of the quota system was that it was a standing invitation to free-riding, especially since much of the money never reached the central treasury (Van Zanden and Prak, 2004).

The Dutch financial system suffered a great deal from the confusion of the early decades of the Revolt, with the Habsburgers’ central control on coinage and currency falling away. At this moment, the province of Holland decided to step in with its economic power to bring stability to commercial transactions. First, the Amsterdam regents relaunched the use of annuities – an innovation introduced by the Habsburgs – as the backbone of public borrowing in the Dutch Republic<sup>1064</sup> (Tracy, 1985: 193 ; 213-214). Second, the Regents set out new monetary rules by establishing the Bank of Amsterdam in 1609 (Dehing and ‘T Hart, 1997: 61)<sup>1065</sup>. By virtue of the Bank of Amsterdam’s monetary monopoly, the guilder was established as the main unit of account for deposits (Neal, 2000: 120-122). All of a sudden, merchants and citizens from within the Republic and later from all over Europe found an unparalleled ease of payment in the always reliable bank guilder. By 1700 a multilateral payment system with all major financial centres of the world had been installed. Not surprisingly, the years from 1600 onward saw a period of

great wealth in the Republic. The Amsterdam city profited most from this wealth, for several reasons<sup>1066</sup>. First of all, the central element of the Dutch economy was the Amsterdam stock exchange. As the Dutch States-General interfered much less in trade (via regulations and taxation) than the traditional states did, and as foreigners were treated with higher regards in Amsterdam than abroad, the stock exchange was a great success. Other foreign trade innovations also were propitious to international economic spill-overs to Amsterdam. The public banks set up on initiative of the Amsterdam Regents allowed for the regularisation of coin export, as well as the facilitation of the formation of large capital associations such as the Dutch East India company – founded in 1602.<sup>1067</sup> Also, the Regents saw colonial policy neither as the shield of “universalist” beliefs, or as a means of political interference. Devoid of such beliefs and aloof of political centralization, colonialism merely was an economic means to enhance the Holland cities’ local privileges and wealth. Thus, in contrast to the universalist aspirations of Spanish and Portuguese expansion, Dutch expansion came to be characterised by relatively minor outlays for political domination and conversion of non-Christian peoples (Price, 1994: 85). Generally speaking, Dutch mercantile societies favored the living-together-apart tradition abroad also; they allowed for pluralism abroad, as long as it did not hamper their economic revenues. All the above peculiarities of Regent policy allowed for an unprecedented boom of foreign trade via the Holland cities.

Another position which the Regent group zealously promoted was a policy of non-interference by the church in public affairs, be they economic, political or educational affairs (Price, 1994). With regards to economic affairs, Calvinist ministers voluntarily abstained from interference, as they saw commerce as the main way to safeguard the superior destiny of the Republic. The Regent policy was relatively unsuccessful with regards to education, however. Backed by Orangist administrators, the Dutch Reformed Church kept a firm public control over educational matters in towns and above all in the countryside. Controls were especially firm in the newly acquired “generality” territories of Brabant and Limburg. Given their highly catholic nature, education was virtually grinded to a halt in these regions as a result of stringent Calvinist controls (Hentzen, 1920: 7-15). Unhappy about the public control over educational matters by ministers of the Reformed Church, the Regents arranged a private education system for their own children – at home or in small groups (Roling, 1982: 73). Remarkably, this proto-example of private education in the living-together-apart tradition, would provide Catholics and a new wave of anti-Statist protestants with a key antecedent for their own school struggle in the nineteenth and twentieth centuries.

Meanwhile, the Regents’ predilection for religious non-interference proved more successful in political matters. Contentious as it may have been, non-interference by the Reformed Church in political matters became accepted practice in the States General.<sup>1068</sup> Nevertheless, one important concession was made to the Orangists in favour of a State religion: only members of the reformed Church were allowed to take up public functions. This effectively meant that Catholics had become second-rate citizens in the Republic. Yet, in spite of the stigma on the Catholics in a nation labeled protestant by its Orangist dignitaries, the Republic never became religiously homogeneous. So, it is estimated that Catholics still accounted for 40 per cent of the population in 1795 (Boxer, 1965: 125), compared to about 50 percent for the Reformed Church. The main reason for this is that, while in most parts of Europe ecclesiastical efforts to develop a confessionally uniform culture were actively supported by the political authorities, the Dutch authorities

– with their pragmatic priorities – branded confessionality to be the biggest threat to piety in the Republic, due its potential for sowing discord. Thus, starting with Johan van Oldenbarnevelt, the Dutch Regents refused to forcefully reform the Dutch people. Few Dutch rebels wanted to exchange a Genevan protestant inquisition for a Spanish catholic inquisition. Still, Catholic public services were forbidden in the Republic.

The emphasis on laissez-faire towards Catholics that were practical enough to keep their beliefs private, undoubtedly had a lot to do with the fact that the sheer number of Catholics in the United Provinces made effective prosecution a practical impossibility from the point of view of civic order. From an economic point of view also, Dutch burgomasters considered effective anti-Catholic action suicidal; demographically and economically, the towns were heavily dependent on the influx of immigrant labour from adjacent Catholic areas (Van Nierop, 2002: 109). This is not to deny that religion was not important for the Dutch policy establishment. Religion played an important, though peculiar role in shaping unity in the Dutch Republic. The political, economic and moral order in the Republic was buttressed, not by a specific confessionality system, but by a general Christian outlook of a natural order in which divine providence manifested itself visibly (Pollman, 2000: 231). In effect, this meant that, while being wedded to a secular form of foreign trade, the Dutch Regents systematically grounded much of their political discourse in quasi-theological wordings<sup>1069</sup>.

One reason for which wealth during the Dutch golden age – from about 1600 to 1670 – came to be concentrated heavily on the province of Holland, was that in the States-General, the Representatives of Holland always placed their local privileges and interests first, identifying Holland privileges with the common interest of the Dutch Republic.<sup>1070</sup> In practical terms this means that, while the Holland Regents respected the fact that the Republic consisted of minorities with no hope of becoming a quantitative majority, they tried to push through their own dominance in a quasi-majoritarian way in the States-General. With a financial contribution that amounted to 57 % of the Dutch Republic's budget, the Holland Regents only officially supported the principle of proportional representation. They in effect held on to a qualified principle of proportional representation, in which their interests and initiatives would lead the agenda, whether in the East India Company, the States-General, the Dutch church or other representative institutions of the Dutch Republic.

A last salient characteristic of the Regent tradition is its engrained antagonism for the “absolutism” of a central, territorial government. So, when during the Dutch Revolt, Orangists tried to make William the new sovereign of the Republic, this met with fierce resistance of the Regents who identified the prince with the “old corruption” of the Habsburg regime<sup>1071</sup>. Through the seventeenth and eighteenth centuries, the Regents would systematically oppose the practice of appointing members of the family of Orange as Stadholders. In addition, they jealously guarded their own administrative privileges, by ensuring two constitutional guarantees. First, the political centre of the Republic was to be based in The Hague, a town in Holland within the influence sphere of Amsterdam. Second, this political centre would never command more than a few hundred civil servants<sup>1072</sup> (‘t Hart, 1993).

#### b. Orangist traditions: origins and salient characteristics

When in 1567, the Spanish duke of Alva was sent to Brussels as the new governor of the Low Countries, the prince of Orange was forced to take position for or against the Habsburgs. Alva's task was to punish all rebels, teach the higher aristocracy a lesson and

restore respect for the Catholic Church. He was to reduce the provincial States to a secondary role by freeing finances from their control and by garrisoning the principal towns (Vlekke, 1945: 137). In reaction to this infringement of rights, the prince of Orange finally decided to become a Calvinist so as to be able to give leadership to the key Calvinist rebel groups in the Low Countries. The contribution of Orange in the Revolt was substantial; as the richest man in the Low Countries, he invested much of his riches in recruiting troops. Nevertheless, a remarkable reversal of fortunes accompanied the formation of the Orangist tradition after the Revolt. During the Revolt it had been clear to everyone that if the United Provinces were to win the war against the Habsburgers it would be mainly due to the alliance between the Prince of Orange and the highly organised Calvinist militias. With victory in sight, however, both the Prince of Orange and the Calvinist zealots found themselves opposed by the urban and provincial regents, who had little or no share in either the Prince's military prowess or the revolutionary tradition of "Calvinist democracy" (Renier, 1944: 34-35). Both groups were accused of absolutism – be it Statist or religious – by the mercantile Regents, fearful of the "old corruption" of the Habsburg regime. Still, the Regents found it impossible to do away with the prince of Orange. Before the Revolt already, the stadtholder had been the representative of the sovereign in the various provinces, including Holland. As he became the leader of the Revolt, which he supported with substantial amounts of his personal fortune, it was considered impossible to do away with his office after the abjuration of the Habsburg emperor.

Following the dominance of "Regent history writing" – the Dutch equivalent of "Whig history", historians have long denied that the Orangist tradition was more than an "absolutist doctrine". Recently, the Orangist tradition has been rediscovered: historians increasingly acknowledge that Orangism is rooted in explicitly republican notions (Israel, 2004). According to Orangist republicans, the resistance against the corrupt Habsburg princes originated in the struggle by the Prince of Orange and the nobility in the southern Netherlands – Brussels, Antwerp and Gent – to protect their age-old privileges. In this tradition, not the Regent-induced "Union of Utrecht", but the Orange-induced Pacification of Ghent constituted the key precedent in the unification of the Low Countries – the future Kingdom of the Netherlands. This interpretation has far-reaching consequences. For one, the founding origins of the States-General – the predecessor of the Dutch Parliament – are located outside the Dutch Republic in this account, namely Brussels – a point worth making in the context of the contemporary European Union. In addition, the prince of Orange and the industrial and landed nobility of the outer provinces are designated the founding fathers of the States-General – the democratic voice of the people. Finally, at the heart of the Pacification of Ghent was a recognition of the equivalence of the protestant and catholic religions. Initially, this facilitated a depiction of the Prince of Orange, William the Silent, as the incarnation of religious pluralism (cf. Sneller, 1938: 15-17); although William's heirs eventually would position themselves as the defenders of the true Protestant religion against the economic relativism of Regent capitalists. This would not occur before the eruption of a dispute between Remonstrants – supported by the freedom of conscience champion Regent Van Oldenbarnevelt, and Contra-remonstrants – supported by the national synod favouring Maurice of Nassau – after 1610.

Up to the turn of the seventeenth century, both Regents and Orangists had followed the example of the iconic William the Silent, who had championed both the rallying cries "freedom of conscience" and "concord" during the Revolt. While the

Regents were more inclined to champion freedom of conscience, given their emphasis on local trade privileges and international capitalism, they saw the benefits of supporting “concord” too. For this was the only way to reach a settlement with the nobility in the less foreign trade oriented outer provinces, and the lower classes in Holland, who increasingly sought refuge with the Orange family. The predisposition by both Regents and Orangist to stay on speaking terms, pacify differences and bolster settlements has often been summarised in the catchphrase “accommodating and fitting” (Hendriks and Toonen, 1998). I shall refer to it as a tradition of pacification, given its origins in William the Silent’s Pacification of Ghent.

As mentioned above, all in all Orangist traditions were weaker in times of peace than in times of war. This had several whimsical effects, but also one very stabilising, albeit largely unintentional consequence. The war time agreements of 1576 – the Pacification of Ghent – and 1579 – the Union of Utrecht – had been concluded with Orangist help. They implied, amongst others, an agreement between the Dutch provinces to preserve a common silver rate for the preservation of unity and mutual commerce. Once peace had returned however, private provincial interests soon came to overrule any such national monetary agreements again (Dehing and t’Hart, 1997; Fruin, 1980). By 1659, a de facto silver currency ratio was set, following the Bank and City of Amsterdam’s 1638 initiative, the absence of an Orangist Stadholder from 1650 onwards, and the other provinces substituting as centre of Dutch unity the Amsterdam Regency for an Orangist eminent head. From 1659 the value of the guilder – the main unit of account in the Low Countries since the Burgundian-Habsburg period – comparatively became very stable, more so than the English pound. In retrospect, the lack of a central authority had the advantage of sparing the Republic the type of government engineered inflation and debasement – that is after the interprovincial debasement competition of the 1570s (Klein, 1980). As a result, the interest on the Dutch public debt remained at a comparatively very low and stable 3 to 4% for much of the seventeenth and eighteenth centuries, compared to more than 6% in other European countries (Dehing and t’Hart, 1997 : 57). Finally, because of the Bank of Amsterdam’s careful monetary management and its informal position as international currency depot, Dutch money was the key currency in many international transfers for most of the seventeenth and eighteenth centuries. In sum, unhampered by a central Dutch authority, the City of Amsterdam’s financial system developed by refining the techniques of old Italian and Antwerp masters, particularly in terms of perfecting the negotiability of foreign bills of exchange (Neal, 1990: 7). On the downside, the lack of a strong Orangist tradition meant a paucity of incentives to institute a central public bank – equivalent to the Bank of England, able to issue banknotes. Similarly, there was no sufficient Orangist incentive to convince each province to give up its own Mint. All this would prove fatal to the geopolitical viability of the Dutch Republic in the long run.

Keywords in Orangist discourse were « religion, freedoms and property ».<sup>1073</sup> The resonance of Orangist discourse hinged on a notion of authentic liberties and “concord”, which was especially popular among landowners, Calvinists, civic militias and guilds, and later even Jewish and Catholic groups. That is because, as stadholders, the Orangist family played an important counterbalancing role for the Regent’s monetary and anti-corporate zeal. Indeed, the great resonance of Orangist republicanism to a great extent lay in its emphasis on corporatism or “Orangist democracy”. Economically, corporatism provided major sections of the middle ranks and aspiring working classes with some sort of protection against the vicissitudes of conjunctural fluctuations and other uncertainties

besetting the small but independent merchant or craftsman. Civically, it turned the small merchants and craftsmen into a community, in which they had some sort of social status. Finally, politically, corporate rights gave the middling ranks a claim on the authorities, while at the same time keeping the less respectable ranks at bay (Prak, 1991: 94). Given the fact that the “Stadtholderate” of several provinces usually was combined in the hands of a member of the Orange family, the Oranges provided the ideal rallying point for the middle ranks to counter the Holland Regents' overbearing influence on their corporate liberties and properties – hence the concept of “Orangist democracy”. As defenders of the “real wealth” of the country,<sup>1074</sup> and as flagbearers of Dutch mercantilism, the Oranges enjoyed quite some support from international merchants too. In particular, as supreme commanders of the army and the navy, the princes of Orange were given credit for their efforts to repel the threat of French invasion and the English navy, and safeguard maritime trade routes – for instance through the blockage of passage to the port of Antwerp, the biggest rival of the Holland ports. As a result, even the Holland regents, who liked to oppose their own republicanism with the court's aristocratic policies and culture, were not convinced that the country could afford to do without an “eminent head”. There were two periods in which the Regents ruled alone and the Dutch Republic did not have a Stadtholder – from 1650 to 1672 and from 1702-1747. Both these experiments, however, ended in humiliating military defeats, in 1672 and 1747, and a falling from grace of Regent republicanism.

Generally speaking, the Stadtholder was both a competing and coordinating factor in the Dutch Republic, depending on the issue at hand (Van Zanden and Prak, 2004: 25-27). With regards to finance, William of Orange's role was ambiguous. On the one hand, it is fairly well known that William had established a personal relationship with several leading figures of the Amsterdam Sephardi financial circles as far back as 1673. Sephardic leaders on occasion risked large sums for the sake of the prestige, influence and favours which accrued to them from their links with the Stadtholder and the Dutch state; they went out of their way to project an image of themselves as being willing and able to perform significant services for both the Prince and the States General (Israel, 1997: 344; Israel, 1988: 271-272). On the other hand, through his connections with Sephardic bankers, William of Orange transplanted Dutch financial secrets to London after his ascendancy on the throne of England in the 1690s<sup>1075</sup>. Still, it can easily be argued that it William's bridging function between Amsterdam and London, helped the former city remain at the centre of international finance – especially government loans – up to the end of the eighteenth century – that is in spite of a trading system which was crumbling through the eighteenth century.

Popular Orangism was inextricably entwined with Reformed orthodoxy from at least the period of the Truce crisis – the 12 years from 1609-1621 – onwards. The emotional power of Orangism seems to have derived principally from the identification of the princes of Orange with the interests of the Reformed Church, which in turn carried a heavy emotional charge because of the widespread tendency to confuse and conflate religious orthodoxy and patriotism (Price, 1994: 187). In other words, Orangism helped to spread a sense of patriotism throughout all provinces, not just Holland. A final characteristic of the successive Princes of Orange is that they were defenders of a more centralised conception of government. They often chafed at the fragmentation of power in the Republic - for example, the five separate Admiralties, including three in Holland, each with its own jealously guarded territorial base (Tracy, 1985: 200-201). They saw a greater

need for unity in the Dutch Republic, both economic and religious, which only a stronger central executive and a stronger consensus of beliefs could bring. Orangists abhorred the narrow focus on merchant capitalism which the Regents pursued. Still, what the Orangists were pursuing was not a French-style unitary government. Realistically, the most they could achieve was to stop the Regents' encroachment in old corporate privileges, in particular to do with «religion, freedoms and property» – e.g. the Dutch Reformed Church, guild-like corporations or the raising of land taxes. Thus, while the Regents did not wish more than a confederal type of republic, Orangists republicans strived for a federal system which combined respect for “corporate” liberties – in the premodern sense – with a strong central executive.

### 3. Antecedents to the rivalry between Whigs and Tories

#### *a. Squirearchy versus merchant oligarchs*

Late medieval England was the most centralised and unified monarchy in Western Europe. When William of Normandy claimed English kingship in 1066, he took charge of “the best organized monarchy in all Europe” (Van Caenegem 1973: 9). A remarkable interaction between English State – led by the King – and nation took place. Given that most “great” English national institutions dated before the conquest it was difficult for the incoming William to start from a position of absolute personal authority. The natives of England by the 10<sup>th</sup> century had developed a common law tradition unparalleled in its internal consistency and nation-wide cohesion to anywhere in Continental Europe. They had also produced the most advanced, nation-wide currency in Europe (Loyn, 1984; Wormald, 1999). All this had been achieved by a long line of Saxon successors.<sup>1076</sup> William's place was not only going to be relative to the traditions established by this Saxons. Beyond Saxon kings, there had been an England and Englishness since at least 937, when Alfred's grandsons Aethelstan and Edmund defeated the Northumbrians at the unidentified place of Brunanburh. Since then, the English territory has stayed roughly the same and the people have continued to call themselves English (Colls, 2002: 8, 13-19, 380-381).

Because they recognised the expansive power of the link between relatively autonomous national traditions and a centralised State apparatus, English Kings, from the days of William the Conqueror, became relatively more effective at controlling the relation between political power, civilisation and economic wealth than their European counterparts. By making the city of London – with its unique concentration of urban citizenship and cosmopolitan trade<sup>1077</sup> - the seat of government, the Kings were able to build a Court entourage which not only would provide the political platform for the settlement of economic issues<sup>1078</sup>, but also the platform for the development of new civic habits.<sup>1079</sup>

By the eleventh century already, most of the English shires and boroughs were in place as effective administrative units, with courts big enough and inclusive enough to involve “the active participation of thousands of men of relatively of wealth and status” (Campbell, 2000; Colls, 2002: 380-381; Loyn, 1984; Wormald, 1999). But, obviously, the English kings were already thinking beyond this territory, in terms of a new “English empire”. The autonomy of the city-state of London suggested a pacific way to secure Welsh, Irish and Scottish allegiance to this empire. London embodied the logic that wealth accumulation would lead to voluntary citizenship<sup>1080</sup> (Davies, 2002: 113). At the same time, Irishmen, Welshmen and Scots saw London's city-state tradition as a bulwark of free

popular opinion – against interference by the English State.<sup>1081</sup> For instance, Welshmen dreamed of how their ancient empire would have London as its seat (Davies, 1990: 104-5)<sup>1082</sup>. Thus, London became the main pole of civility in the first English Empire<sup>1083</sup>, whose barbarous fringes to the north and west were largely defined in terms of distance from the city (Keene, 2004: 472; Gillingham, 2001).

When Henry VIII, in spite of his past as a Catholic orthodox opposed to the Reformation, decided to break with the Holy Roman Emperor (1533) and transform the English Catholic Church into an autonomous Anglican Church, the centralisation of Court authority in London reached its peak. What is often forgotten, is that it were provincial industrialists – most notably in the textile industry – rather than London merchants who acted as the engine of economic growth in England before the end of the sixteenth century. By the seventeenth century, however, the export of textile had significantly declined and London had become the new engine of growth. The switch to large-scale farming and wealthy landlords that was taking place since the 1580s, and the increasing opportunities of social mobility in London, facilitated such a shift (Fisher, 1971: 7). Up to the second decade of the seventeenth century a situation of relative status-quo lasted. By contrast, from about 1621 to 1721, England lived a remarkably turbulent period of political rifts, civic unrest and economic transformations. This period coincided with the intensification of warfare with continental European rivals, the reorganisation of the State apparatus around the financing of a national debt, and growing tensions between religious Dissent and Anglicanism, the monied interests and the landed establishment. It is also the period in which two groupings, the so-called Whigs and Tories, emerged, each one promoting its own views on how the relation between State, civil society and market actors should be reconstituted. Finally, it is also the period which gave the final impetus to London as a unique centre of not only overseas trade, government expenditure and consumer-oriented industries, but also British civilisation (cf. Fisher, 1989) – whose growing superiority provided the impetus for the emergence of a second British Empire.

The increasing turbulence in the 17<sup>th</sup> century was caused by two dynamics. The autonomy and cohesion of the established elites organised around the Crown and the Church was threatened by financial, religious, and geographical disintegration – the growing population in the north of England was largely out of ecclesiastical control. On the other hand, two rivalling groups of challenger elites representative of the new financial, religious and geographical realities were seeking to establish a leadership position. The first of these groups was the so-called “squirearchy”, a new middling rank between small freeholders and aristocrats which benefited enormously from the sales of land after the Dissolution of the Monasteries. Realising that they needed a stronger authority basis in the provinces, the Crown and Church establishment entrusted the squirearchy with the running of the local counties in which they resided. Assuming respectable positions in government office, the law or trade, the squirearchy possessed the sufficient funds and status to engage in the buying up of cheap Church, Crown or noble lands. Up to around 1640, the squirearchy were a unique middling rank only known to English society. According to many, it was the secret of England’s social stability and her domestic entrepreneurship – the squirearchy was responsible for much of the process of agricultural modernisation in the sixteenth and early seventeenth centuries. The squirearchy not only bound together the various classes of the countryside. It also was at the core of a network of personal relationships emanating from the Treasury and encompassing the whole of rural society as well as the mercantile and financial society of London (Habakkuk, 1940: 2). In sum, the

squirearchy was at the centre of the English system of “sound money”. Contrary to its continental counterparts, this system was not premised on international currency speculation and exchange, but on the exact opposite, namely *containing market arbitrage around currency exchange to preserve a “real” link between money and the wealth of the nation* (Braudel, 1985; Knafo, 2007: 14; Wood, 1991). Thus, England, and in particular its Parliament, stood out in the sixteenth and seventeenth centuries for having very few coin debasements and for trying to limit currency outflows from London – by stopping foreign merchants from taking home their speculative currency profits in monetary form (Munro, 1992).<sup>1084</sup> At the end of the seventeenth century onwards, the English proto-modern system of national monetary management reached its first tipping point, with the invention of the Bank of England. More importantly even, by that time, the English monetary system was based on a de fact gold standard – where de facto bimetallism and its corollaries of seignorage and cross-territorial arbitrage remained prevalent on the Continent up to at least the mid-nineteenth century (Fetter, 1965: 2; De Roover, 1949; Knafo, 2006: 86)

The commercial and financial oligarchs constituted the second challenger elite. These oligarchs were at the centre of both the network of Dissenters – be they Presbyterians, Congregationalists or Puritans – and the commercial and financial boom in seventeenth-century London. Contrary to conventional wisdom, before the eighteenth century, the English State only informally tolerated the speculative practices of foreign merchant bankers in London, but did not officially sanction them. The Crown and Church establishment soon came to realise that preventing their own disintegration hinged as much on securing the loyalty of the London oligarchs as on mobilising the squirearchy. This realisation, however, developed only gradually, from the 1640s onwards, and was intimately linked with the evolving role of Parliament, religion and fiscal rules.<sup>1085</sup> It was also linked with the transition from an English to a British empire, and the State’s increasing need from the late eighteenth century onwards of a system of sound money; that is a financial system anchored in the stability of the pound and in the ability of London-based financial intermediaries to act as a world hub for long-distance trade.

#### *b. Civil War and Glorious Revolution*

When the civil war broke out in 1642, it was waged for religious and fiscal reasons. When the Archbishop of Canterbury William Laud (1633-1645), encouraged by James I, tried to enforce the political authority of the Anglican bishopry, two things became clear. England’s conversion to Protestantism had been superficial and incomplete.<sup>1086</sup> And, following this insight, the real division in England was not between Protestants and Catholics, but between Anglicans and Protestants (cf. Russell, 1989, 1990). Anglicanism and Protestantism were very different things, although both aspired to a type of nonconformism – the first more territorial, the latter corresponding more to the personality principle. Laud’s attempts failed. More even, his failed attempts triggered a counterrevolution, led by the Puritan Oliver Cromwell; the latter established a “Godly Commonwealth” in which most royal and clerical authority was effaced. After the breakdown of Cromwell’s experiment, and the Crown’s Restoration, the Puritan aristocracy and gentry finally opted for the Church and left the sects to their social inferiors. This prompted the crystallisation of civil society in clear denominational layers, with Anglicans<sup>1087</sup> at the top and bottom, and Dissenters in the middle (Perkin, 1969: 34, 196).<sup>1088</sup>

What has remained largely unacknowledged is that the Civil War also provided a critical conjuncture in England’s fiscal and constitutional history. Beyond the religious,

the conflict had also originated as a tax revolt (O'Brien, 2001).<sup>1089</sup> In many ways, the Civil War precipitated a greater financial revolution<sup>1090</sup> than the Glorious Revolution half a century later. Clearly, the Glorious Revolution and the ascendancy of the House of Orange<sup>1091</sup> enabled the emulation of several features of Dutch taxation and finance of a national debt.<sup>1092</sup> Still, the centralised nature of the English fiscal system a few decades earlier had already stood in stark contrast with the decentralised tax farming system operated in the Dutch Republic.<sup>1093</sup> Parliaments in London enjoyed legal sovereignty over probably the most centralised fiscal system in Europe. Compared with political systems in continental Europe, provincial estates, special privileges and exemptions hardly figured in England's fiscal process<sup>1094</sup>.

In addition to providing a critical fiscal conjuncture, the Civil War provided a critical foreign policy conjuncture. Cromwell's Rump Parliament broke with the Stuarts' hesitant legacy, and placed at the centre of England's foreign and military policy industrial, commercial and financial interests.<sup>1095</sup> Policy was now decidedly geared towards the conquests of overseas markets and the destruction of England's great economic rival, the Dutch Republic.<sup>1096</sup>

The legislation of the Long Parliament<sup>1097</sup> during the Civil War ensured that no-one could raise taxes without parliamentary consent. After the brief experiment of the Commonwealth – the English equivalent of the Dutch Republic – which ended in confusion following Richard Cromwell's downfall, the Stuarts were restored. In a first stage, James II tried not to excessively antagonise Parliament. He justified the collection of heavy customs on the grounds that to cease doing so would disrupt trade, an argument that was acceptable to many. The levying of excise taxes, legitimized on the basis of the precedents under Charles I, was more grudgingly accepted. In a second stage, however, faced with his failure to persuade the parliament to repeal the penal laws<sup>1098</sup> and Test Acts<sup>1099</sup>, James II decided to pack the parliament and replace it with a more compliant body in matters of religious policy (Speck, 1988: 146).

In the formulation of foreign and economic policy, James' government was obliged to take into consideration the views and interests of the City of London Corporation, just as Cromwell had done. This was because the overseas commerce they controlled and directed was becoming such an important sector of the English economy, still small in proportion to agriculture and the internal market but critical for certain key aspects, especially the export of cloth, the import of luxury products, and the supply of bullion needed for increasing the quantity of money in circulation. Moreover, the merchants of London, as the sole suppliers of credit, had obtained a stranglehold on government finances. Lacking a system of long-term institutionalised credit through a banking or "rents" system, the English government was dependent on the London money market for the loans without which it could not function. In return for such services, the London merchants increasingly demanded that foreign and military policy be adapted to their need for the protection of trade routes and the expansion of overseas markets. They also wanted the preservation of their monopoly rights in overseas trade, along with a dismantling of the now ramshackle and corruption-ridden system of economic controls over internal trade, industrial production, land use and interest rates. Since it was barely represented in Parliament, the "monied interest" as it was later to be known, exercised its leverage in more obscure ways, by lobbying at the Court, by getting friends or clients to introduce bills in Parliament, or by threatening to cut off the necessary flow of loans to the royal treasury. It was influential in Parliament because many landowners represented there

were sheep owners, who depended on flourishing cloth exports to keep up the price of wool, while others were passive investors in overseas trading companies. To some extent, therefore, the economic interests of landowners and London merchants coincided; although in other ways, over issues of war and taxation, they were often diametrically opposed (Stone, 1980: 29-30).

After the Glorious Revolution, Parliament was finally transformed into a permanent institution. The Declaration of Rights of 1689 accused James of “levying money for and to the use of the Crown by pretence of prerogative for other time and in other manner than the same was granted by parliament” (Schwoerer, 1981: 295-298). The consequences were far-reaching: the availability of a permanent legislative machine turned parliamentary lobbying into a profession.

The Glorious Revolution did not immediately settle all problems of constitutional, fiscal and religious democratisation, however. The failure to reach a comprehensive democratic settlement was mainly due to the ongoing rivalry between squirearchy and London merchants. In the wake of the Glorious Revolution, the members of the squirearchy were not offered positions by the new government, because they had been staunch defenders of James II. Aggrieved, they began to identify themselves as the defenders of “Country”, the antithetical counterpart of “Court” – that corrupt and ever-encroaching political entity settled in London. The rivalry had a religious element too: while the rural squirearchy was predominantly Anglican, many London oligarchs had their roots in the Dissenter community (Speck, 1980: 26-31).<sup>1100</sup> During and after the Glorious Revolution, the two groups came to identify with respectively the Tory and Whig traditions of democratisation.

#### **4) Resolving English leadership problems: the Whig and Tory traditions**

The Glorious Revolution was not a class war<sup>1101</sup>. Both Whigs and Tories came from the upper echelons of English society<sup>1102</sup>. Both targeted only piecemeal changes to the English constitution and abhorred the thought of radical changes. Both still envisaged a role for the Crown in the new era of parliamentary supremacy after the Revolution. And although the permanence of Parliament distinguished the post-Revolution situation from the absolutism to which the Stuarts had aspired, both Whigs and Tories<sup>1103</sup> were quick to argue that sovereignty lay not in the people but in the legislature, i.e. in division of power between the King, Lords and Commons (Goldie, 1980). Clearly, when respectable Englishmen used the term “revolution” to describe the events of 1688 and 1689, or even the period 1640 to 1689, they did not mean by it the violent overthrow of authority, nor the transfer of power from one class to another<sup>1104</sup>. Rather, it was used in the sense of the revolution of a wheel turning round to a former state.

##### **a. Whig traditions: characteristics**

According to the winners of the Glorious Revolution, the Whigs, “not a single flower of the Crown was touched; not a single new right was given to the people” (Macaulay, 1308: vi, cited in Speck, 1988: 1).<sup>1105</sup> The Whigs wanted to prevent another Commonwealth experiment at all cost.<sup>1106</sup> Thus, the overthrow of James II had been much more about property than about liberty, despite the Whig slogan “Liberty and Property”. Or, more to the point, the Revolution had been more about ensuring the continuity of property and liberty rights for those recognised as “competent and able”, rather than the extension of these rights to all. Still, Whigs and Tories differed on important points. I summarise these different points in table A.2.

**Table A.2: Whig and Tory traditions of democratisation**

Whig	Tory
<p><u>Democratisation ideal-type :</u></p> <ul style="list-style-type: none"> <li>- Personality principle, city-state centered</li> </ul>	<p><u>Democratisation ideal-type :</u></p> <ul style="list-style-type: none"> <li>- Territoriality principle, country-oriented</li> </ul>
<p><u>Market :</u></p> <ul style="list-style-type: none"> <li>- International exchange, credit economy</li> </ul>	<p><u>Market :</u></p> <ul style="list-style-type: none"> <li>- real economy</li> </ul>
<p><u>Civil society :</u></p> <ul style="list-style-type: none"> <li>- « liberty and property »</li> <li>- education: secular Anglican schools</li> </ul>	<p><u>Civil society :</u></p> <ul style="list-style-type: none"> <li>- Ancient liberties and national duty</li> <li>- education: religious and public spirited</li> </ul>
<p><u>Politics</u><sup>1107</sup> :</p> <ul style="list-style-type: none"> <li>- <i>Parliament</i> : <ul style="list-style-type: none"> <li>a) Assumption that minorities can find expression in one of the major parties<sup>1108 1109</sup></li> <li>b) “popular sovereignty” expressed through parliamentary sovereignty (except during elections)</li> <li>c) rotating representation independent from established interests<sup>1110</sup></li> </ul> </li> <li>- <i>Government</i>: representative of city-state principles « no taxation without representation » and “those who stand to gain from a service provided by the state should pay for it”</li> </ul>	<p><u>Politics :</u></p> <ul style="list-style-type: none"> <li>- <i>Parliament</i> : <ul style="list-style-type: none"> <li>a) based on assumption that all minorities in polity are represented by established ranks<sup>1111</sup></li> <li>b) « popular sovereignty » expressed through voluntarist institutions of Monarchy, Anglican Church, Civil Service and Hereditary Peers</li> <li>c) Stable, locally embedded system of representation</li> </ul> </li> <li>- <i>Government</i>: representative of an organic functional order</li> </ul>
<p><u>Corruption :</u></p> <ul style="list-style-type: none"> <li>- lack of world-oriented nationalism and business autonomy</li> </ul>	<p><u>Corruption :</u></p> <ul style="list-style-type: none"> <li>- Lack of patriotism and bigger social-economic picture (narrow financial capitalism instead of Commonwealth<sup>1112</sup>)</li> </ul>
<p><u>Solution to leadership problems:</u></p> <ul style="list-style-type: none"> <li>- tradition of “City monetarism”</li> <li>- tradition of “secular Anglicanism”</li> <li>- tradition of “neutrality”</li> </ul>	<p><u>Solution to leadership problems:</u></p> <ul style="list-style-type: none"> <li>- tradition of “Anglican voluntarism”</li> <li>- tradition of “Anglican democracy”</li> </ul>

Tories and Whigs interpret the Glorious Revolution's slogan "Liberty and Property" in different ways. In contrast with the Tory tradition, which stands for ancient liberties and cohesion provided by the "real" wealth of the country, the Whig<sup>1113</sup> tradition stands for new opportunities for accumulating personal wealth. Whigs were staunch defenders of a diminished semi-Orangist dynasty, a national debt<sup>1114</sup>, an autonomous Bank of England and champions of greater parliamentary clout for the Lower House. They were fledgling proponents of "monetarism", a financial system partial to a credit-using economy. In a system of monetarism, national wealth is not just an external reflection of a "real exchange" economy.<sup>1115</sup> Rather, it is a reflection of the fact that money is an independent, quantitative commodity that can lead to the creation of territory-transcending customs and legislation – most notably in terms of promissory notes or contemporary variations such as Euromarkets.<sup>1116 1117</sup> While Tories rallied more to a "real", or territorial theory of money – albeit with a strong focus on established, voluntarist authority, Whigs generally sided with a personality principle of money in line with the international reality of the City of London.

Traditionally, merchants who developed newer markets with little protection from the English establishment rallied strongly to the Whigs. That is because, more than Tories, the Whig families have always assumed that their authority rested on a readiness to make money militantly and commercially from the city-state of London (Hobsbawm, 1968: 17-18). This included wielding a permanent standing army and a mighty navy to assert the superiority of British world-state claims against Popish or underdeveloped nations' counterclaims.

Less violently, the Whig tradition is based on a conviction that all men's natural rights ought to be transformed into civil liberties; yet active political rights should be restricted to the property-owning elite (Dickinson, 1981: 37). Historians often make the claim that one major difference between Tories and Whigs is that the latter acknowledge the right of resistance against those institutions that are tyrannical and have no legitimacy but their historical existence.<sup>1118</sup> This is much truer if one considers domestic than international tyranny, however. Different from the "radical Whigs" who emigrated en masse to the United States, British Whigs only consider "secular laissez-faire" and electoral campaign strategies legitimate forms of resistance. For instance, in terms of secular laissez-faire: before the ascendancy of the Whigs, the religious establishment<sup>1119</sup> had been a logical instrument of political and civic control – the expression of popular opinion often took religious forms. Once in power, Whigs gradually subordinated the religious Establishment – symbol of Tory authority – to secular authorities, by nurturing a tacit acceptance of religious apathy. Arguably, "gradualism" is at the core of all English Whig traditions – but not their North American "Real Whig" variant. The gradualism principle prescribes accommodation between old and new in an "organic", "digestible" fashion (Bancroft, 1984; Norton, 1984). One illustration of the Whig propensity for digestible change, was its promoters' reluctance to come up with a new written constitution after the Glorious Revolution.<sup>1120</sup> Afraid of a Tory-led counterrevolt, and cognisant of the resonance of informal arrangements such as the Magna Carta, the Whigs thought it sufficient to circumscribe the prerogative of the Crown and fix the succession in the Protestant line "to give satisfaction to the constitutional feeling in the country" (Fisher, 1911: 136). A less reluctant expression of Whig gradualism is the Westminster model of government. This model not only involves a strong cabinet government based on majority rule and a two-party system. Most importantly, it includes the doctrine of parliamentary

supremacy over popular opinion – “popular sovereignty” – except during elections. It provides that all minorities should be able to find expression in one of the major parties until the next elections; any popular revolution that is not channelled through the means of official elections therefore is considered illegitimate (Verney, 1991: 637).

Within the Whig family, there has always been a vociferous minority of radicals that does not subscribe to the gradualism thesis. These self-appointed “real Whigs” abhorred the fact that at the first opportunity Whig leaders reduced the frequency of elections from three years to seven, quietly restricted the number of eligible voters in many boroughs, eliminated actual contests for seats through prior gentlemanly understandings wherever possible, and almost succeeded in converting the House of Lords into a self-perpetuating corporate body (Murrin, 1980: 381). Much in the same way as the Dutch Regents dealt with overzealous ministers in their ranks, the Whigs generally managed to slight the radical claims as unrealistic<sup>1121</sup>.

b. Tory traditions: characteristics

Toryism involves an aversion for both national disunity and a State that encroaches on the natural order of society (Bevir and Rhodes, 2003; Blake, 1985; Gamble, 1988; Gilmour, 1978<sup>1122</sup>). Tories are in favour of intermediate institutions such as the monarchy, the Anglican Church or civil service, which can provide barriers to state intervention<sup>1123</sup>. Nostalgic of the societal cohesion of early modern English society, the Tories have a vested interest in state failure, and a belief that a popular opinion led by a natural, voluntary hierarchy can keep market forces in check. In many ways, the Tories championed the *voluntarism principle*: the principle that to be a leader it does not suffice to be endowed with ample civic qualifications and property; one also needs to have internalised a “public spirit”<sup>1124</sup> that prioritises the national interest over the self-interest in an effective way. In more practical terms, the voluntarism principle points to the fact that Tories would like to restrict active political rights to those who, by default of lowly subsistence problems, over several generations have developed a deep sense of commitment to ancient English liberties, and an ability to serve them by integrating habits of self-interest in the bigger picture of national duty. Given the above characteristics, it is not surprising that many Tories after the Glorious Revolution concluded that the Whig Statists were destroying ancient liberties and traditional families only to raise a swarm of greedy parvenus upon their ruin. For instance, before the Revolution, the old monopolies, such as the East India<sup>1125</sup> and Royal African Companies, were led by Tories. The fact that after the Revolution the Whigs gradually encroached on the old monopolies’ independence was a moot point for Tories.<sup>1126 1127</sup>

Similarly, but from a geopolitical viewpoint, there was a fear amongst Tories that with the Revolution and the ascendancy of William of Orange on the throne, the Dutch had found an effective means to settle in their favour the age-old conflict with the English for mastery of the world’s trade. So, Pamphleteers such Robert Price concluded that the events of 1688-89 had produced a revolution in England that far from being ‘glorious’, was humiliating, disruptive, and economically ruinous. “We shall be supplanted by our neighbours and become a colony to the Dutch” (Price, 1702: 102, cited in Israel, 1997: 360). The Tories defended 1688 as the restoration of the ancient and virtuous constitutional balance of King, Lords and Commons. And while they were quick to recognise after the Revolution that James II had once threatened this balance, they maintained that the bigger menace now came from a new and more sinister direction: the fiscal revolution and the patronage politics of Walpole’s “Robinarchy”.<sup>1128</sup> Corrupt rule in

name of a union of “unnatural interests” was denuding the real wealth of the nation, as well as undermining its virtue and liberties. The Whig oligarchy was undermining the “national interest”; it had come to represent self-interest in the service of corruption (Harris, 2002: 70). The old squirearchy was fighting against the “shift from seeing money as wealth to viewing it as capital” (Trevelyan 1926: 102) and the rise of “speculative market conditions” as a substitute for real national wealth (e.g. Goldsmith, 1766). In particular, Tories stood for the ancient right to secure the “real” wealth of the family through inherited land.

Given Tories’ trepidation about the coalition between a Whig State and the new monied interests<sup>1129</sup>, the foundation of the Bank of England<sup>1130</sup> in 1694 was another moot point. There was a lot of resistance against the Bill for the Bank of England.<sup>1131 1132</sup> Most notably, the Tories feared that the Government would be strengthened by the establishment of a successful Bank<sup>1133</sup>. In addition, seven of the first 24 Directors were descended from Protestant Refugees from the Continent, mostly French Huguenots. This was not surprising, as most prominent City merchants at this time were of foreign extraction (Hennessy, 1995: 186). But as the financial revolution took its toll, Tories began to question whether France was any more a natural enemy than the Dutch Republic. In sum, they now embarked upon what Pocock has called a ‘quarrel with modernity’ siding with the ancients in the battle of the books. It was now the turn of the Tories to enlist, far more successfully than Court Whigs, the greatest literary talents of the age to denounce a standing army, bloated patronage and above all the corrupt alliance between government and money power that threatened to destroy the virtue and independence of the gentry and the House of Commons.

### c. Continuity of the democratic settlement

Between 1714 and 1721 all the tensions between Whigs and Tories slackened, and England entered upon a long period of relative tranquility. This tranquillity, especially from the Tories, is quite remarkable, given that England’s Revolution Settlement created a centralised system of Court politics and one-party rule, closely tied to the disturbing new world of high finance<sup>1134</sup> and parliamentary patronage. Why was the continuity of the settlement between Tories and Whigs rarely endangered? One reason for this continuity was the creation by goldsmiths of a new banking system based on the issuing of bank notes through discounting.<sup>1135</sup> The emergence of goldsmiths’ banking business had been triggered by Charles I’s 1640 decision to seize the ingots deposited in the Tower of London by the City merchants. After that, City merchants en masse sought asylum for their property with the goldsmiths (Braudel, 1973: 360).

A major breakthrough was achieved in the 1660s, when goldsmiths started popularising the use of bank notes through discounting. Based on this new banking model, country banks would later be formed, primarily to serve a local clientele outside the City, but gradually facilitating the emergence of a nation-wide discount service, centred on the Bank of England (Marchal and Marchal, 1977: 27). Using the discount operation to issue banknotes, goldsmiths created a mechanism that allowed a debt form of money, while ensured the credibility of banknotes in terms of the real economy. Banknotes were still convertible into gold. But since they could only be converted back into gold once the assets against which they had been issued came to maturity, the risk of bankruptcy of financial intermediaries was greatly reduced (Quinn, 1994). The national coverage and reputation mechanisms offered by the goldsmiths – Quaker families such as the Barclays and Coutts<sup>1136</sup>, in combination with the lesser corruption potential of local banknotes,

meant the system of discounting soon became widespread in England (Nevin and Davis, 1970).

The discounting innovation provided one foundation for the English industrial revolution. It ushered in a new system of issuing banks that could inject important sums of liquidity into the economy without causing inflation; that is, a highly responsive banking structure that could adjust the supply of money to the *real* needs of the English economy in an unprecedented way. Particularly helpful in this regard was that the Bank of England – the most prolific issuer of bank notes – left the market of mortgage securities to private banks – who suffered from irregular cash-flows for quite a long time in the eighteenth century. With the Bank focusing on managing the national debt as well as on ensuring a non-inflationary system of note circulation, private banks were able to develop very active discounting operations closely corresponding to real economic transactions (Melton, 1986: 40-41). Mortgaging, in particular, became very popular after the 1680s amongst landowners intent on consolidating their estates in favour of their offspring. This practice, which became known as “entailing estates”, in effect was a reinvention of the old squirearchy principle of safeguarding the real wealth of the nation through mechanisms of inherited land (Habakkuk, 1940: 7).<sup>1137</sup>

Testifying to the solidity of the English system of sound money, by the late eighteenth century onwards it would become widely admired by Continental Europeans. In particular, the English banking system had proven far less open to the “international corruption” of coinage debasements and bill of exchange movements than common in Continental Europe. As noted above, this domestic resilience – which sometimes resembled isolationism – had been triggered by the English Parliament’s greater diligence in fighting monetary “corruption”. For instance, the 1666 legislation “for encouraging of coinage” abolished seignorage charges, in effect establishing free and unlimited coinage of gold and silver (Fetter, 1965: 1). While silver coins would long remain the preferred means of exchange for small sums, a *de facto* gold standard – against which silver coins were valued – emerged in England as early as the end of the 17<sup>th</sup> century, two centuries earlier than on the Continent.<sup>1138</sup> Again, the English State had played a role in this, although a largely unintended one. First, under the Protectorate silver coinage had been in a particularly bad state, leading to the increasing use of gold for larger payments. Furthermore, with the State’s decision to start the coinage of guineas in 1663 – and the fixation of the guinea’s value to a first erratic but later increasingly narrow shilling exchange rate – gold became an increasingly popular means of payment. This reflected the health of the English economy as compared to for instance the Spanish one where copper was the means of payment (Braudel, 1973).

Beyond the role of the State, the English domestic system had become increasingly monetised through a means of exchange that was not accepted abroad – helping to render international corruption of the English currency a distant memory – bank notes. As the demand from industry for small cash and short-term credit was growing in the eighteenth century, a group of specialised country bankers offered local banknotes to accommodate this demand.<sup>1139</sup> By the end of the eighteenth century there were more than three hundred country banks in England. Through forces *majeures*, in particular banking crises such as those in 1793 and 1825, and calls to counter Old Corruption, financial and taxation policies would become more centralized. Initially much against their volition, this gradually brought country bankers into closer contact with the Bank of England, London brokers of bills of exchange, and indirectly, the Bank of England. Thus, with the benefit of

hindsight, country bankers – rather unintentionally – as early as the late eighteenth century were laying the groundwork for a national credit network with London at its centre. In particular, this four-party network ensured that money from the saving districts of the country – particularly the agricultural areas of East Anglia and the West Country with their seasonal surpluses, could be transferred to the industry-investing areas of the Midlands and the North (cfr. Briggs, 2000: 22-23).<sup>1140</sup>

While English bank notes often were only local in scope, country banks' increasing use of a discount system centred on the Bank of England gave rise to a precocious national monetary system. The conjunction of State interventions and unintended, voluntaristic effects allowed the English monetary authorities to do what none of their Continental European counterparts could before the mid- or even late-nineteenth century: *increase the stock of money without endangering the stability of the national currency* (Braudel, 1984: 356; Knafo, 2006: 88). The stable value of the sterling pound, the fading out of silver coinage debasement practices, and the early spread of banknotes and discount mechanisms came to symbolize English exceptionalism, as well as national pride in the tradition of "voluntarism" on which it was partly built.

Another major facilitator of a stable settlement between Tories and Whigs was the drastically changed geopolitical reality. By the time of the War of the Spanish Succession (1702-13), Britain had emerged as unquestionably the financially and militarily strongest of the powers ranged against the might of France and Bourbon Spain. Contrary to Tory fears the Dutch Republic increasingly played a subsidiary role, especially at the sea and outside Europe. Tories soon came to realise that the Bank of England<sup>1141</sup>, a sound national debt, and a Parliament sympathetic to the monied interests, enabled the state to collect significantly higher revenues than its "absolutist" rivals on the Continent. In addition, All this convinced the Tories that serving the English national interest indeed could best be achieved by overseas conquests in conjunction with commercial expansion.<sup>1142</sup> While Dutch patriots complained that Amsterdam financiers were serving foreign interests rather than the national interest, this argument could not be applied to England. Indeed, contrary to the Dutch Republic, England until the second quarter of the nineteenth century developed an essentially domestic form of industrial and financial capitalism.<sup>1143</sup> Just like their North-American industrialists at the end of the nineteenth century, English industrialists and manufacturers in the eighteenth century enjoyed a substantial amount of governmental protection, while benefiting from the stability and liquidity of the London money market.<sup>1144 1145</sup>

The remarkable continuity of British policy also had its foundations in the fact that England was not a confessional state in any narrow sense.<sup>1146</sup> Its laws proclaimed it to be a pluralist protestant nation at home and an aggressively anti-catholic polity abroad. Religious differences between Anglicans and Dissenters were smoothed over in the name of the greater English interest of anti-Catholicism and the commercial wealth of Britain. In fact, as the Anglican church was relapsing into a docile branch of the patronage system of the political elite<sup>1147</sup>, and as almost all traders – dissenters and Anglicans alike – could benefit in some way from Britain's ruthless pursuit of colonial markets<sup>1148</sup>, a new consensus of "*secular Anglicanism*" emerged (cfr. Marwick, 1996).<sup>1149</sup> This consensus held that all domestic religious – and in later centuries class – strife amounted to anti-national factionalism. The only legitimate religious strife was with Catholics, the French in particular (Colley, 1992a: 56). The paradox of secular Anglicanism is that it was not really protestant in nature at home. Yet successive evangelical movements would do much

to strengthen this tradition throughout the centuries. Evangelicalism softened the raw edges of potential group conflict by its restraining influence on the strategically important classes in England (Halévy, 1912; Haseler, 1976: 23). By being mobilised as a vehicle of secular Anglicanism, religious movements such as Methodism of course signed their own death warrant

A third reason for the continuity of the eighteenth century settlement simply was that Tory landowners became accustomed to the growing power and influence of the commercial and monied interests. This was not so hard, given that it soon became apparent that the hold of the former on the levers of power in the countryside and on the execution of policy at the center remained largely unaffected. City bankers and merchants were neither edging out the squirearchy on the benches of the Justices of the Peace in the counties, nor crowding out the aristocracy in the cabinet council in London<sup>1150</sup>. Foreign and military policy now certainly had to be accommodated to suit the monied and commercial interests. But then again, this had been the case since the end of the Civil War. Even in terms of domestic industry, the position of the Bank of England did not turn out to be such a moot point after all. While the Bank in 1694 drew mostly from the great monied and commercial magnates of London, it gradually spread its net across the countryside. In addition, Tories came to realize that the Bank of England did not in fact reduce rents or lower the price of land. Instead, to induce landowners to invest their surplus cash in the Public Funds, the Bank did lower the rate of interest. As lenders to the Government felt obliged to support it, monied and landed interests increasingly converged. This convergence was greatly assisted by social and educational developments, which provided both Whigs and Tories with a common cultural background and a common lifestyle (Cameron, 1967: 23; Stone, 1980: 82-84)<sup>1151</sup>. It was also greatly helped by the fact that another central financial institution, the Treasury, remained closer aligned to the Tories than the Bank of England<sup>1152</sup>.

A fourth reason was the apparent social mobility in England, an important de-antagonising element in a rapidly modernising country.<sup>1153</sup> Rather than being the result of the openness of the landed elite to penetration by newly enriched bourgeois, the stability of the English establishment owed more to the mobility, wealth and numerical strength of the “middling sort”. This middling population emerged between 1660 and 1800 through the diffusion of a focus on financial property – the monetisation of individual and group exchanges according to a clear national standard – and the expansion of overseas commerce and internal free trade. The existence of such a large urban middling class focused on individual monetary wealth distinguished England from its continental counterparts, where guilds and rural common property kept playing a bigger role.<sup>1154 1155</sup>

<sup>1156</sup> On this last point, it has to be noted that the Corporation of London was a enormous exception to this rule, retaining a comparably larger amount of autonomy than its continental counterparts well into the 20<sup>th</sup> century.

Willing to embrace the principle of possessive individualism championed by merchant-dissenters,<sup>1157</sup> but unwilling to relinquish its paternalistic entitlements, one of the great strengths of the English landed elite was its capability to in turn co-opt those below them into the status hierarchy of gentility.<sup>1158</sup> It is this last point that made the rise of the middling ranks so crucial for the continuity of England’s policy establishment. Instead of resenting the aristocracy, the middling ranks eagerly sought to imitate them. Aspiring to gentility, they copied the education, manners and behaviour of the gentry (Stone and Stone: 409). This then, was one important aspect of the tradition of Anglican democracy.

The other aspect of Anglican democracy has been summarised somewhat ideologically by Young (1937: 7): “The Tories are the true representatives of the people. They defended the people both against those who would destroy the institutions, whether in Church or State, which were their self-appointed way of life, and those who would manipulate them to their exorbitant advantage”.

The appearance of nation-wide social mobility for the “middling sorts” was greatly facilitated by the City of London<sup>1159</sup>, which played the role of centre of extra-parliamentary opposition.<sup>1160</sup> Indeed, the City of London from the 1730s onwards became “the critical source and springboard for nation-wide campaigns” against what was seen as the increasingly extensive powers being taken by the Whig landowners and their leading commercial allies<sup>1161</sup>. Up to the 1760s, when the Whig oligarchy started crumbling, the City in effect was the spokesman for the “middling sort”; it was the place where pamphleteers played their role of guardian of English liberties against an oppressive government, excessive taxation and monopolistic tendencies in commerce (Evans, 1994: 154-155). Thus, due to the relative autonomy of the London city from the English government<sup>1162</sup>, and its extra-parliamentary opposition role, a shift had occurred towards a sense of national consciousness or popular opinion<sup>1163</sup> by 1760 (Sharpe, 1987: 120).

A last element accounting for the relative domestic tranquility was the wide scattering of industry throughout the countryside. Industrial capitalism in 18<sup>th</sup> century England was highly developed in the countryside as well as in the towns. A good deal of the industries and manufactures of Britain were rural, the typical worker being some kind of village artisan or smallholder in his cottage, increasingly specializing in the manufacture of some product – mainly cloth, hosiery and a variety of metal goods. By degrees small peasant or craftsmen turned into wage-labourers. The little market centers where merchants issued to buy up the village products, or to distribute the raw material and rent out the looms or frames to the cottage workers, became towns, filled with workshops or primitive manufactories to prepare and finish material and goods. The system of rural “domestic” or “putting-out” industry spread widely throughout the countryside, and tightened the meshes of the web of cash transactions which spread over it<sup>1164</sup>. This had two linked and important consequences: “It gave the politically decisive landlords a direct interest in the mines which happened to lie under their lands and the manufactures in their villages. Thus, the local nobility and gentry invested in canals and turnpike roads not so much to open wider markets to local agricultural produce as to reap the benefits of better and cheaper transport for local mines and manufactures. The second consequence was that manufacturing interests could already determine government policy, unlike in the other great commercial pioneer, the Dutch Republic, where the interests of the commercial and financial interests of merchants reigned supreme (Hobsbawm, 1968: 15-17).<sup>1165 1166</sup>

## **5. Position of Dutch agriculture in democratisation dynamics**

Dutch farming since at least the fifteenth century was peculiarly modern, in the sense of being geared towards innovation and higher production (De Vries, 1974). An important cause of this modernity was that the Dutch Republic became a main commercial power in Europe in the 15<sup>th</sup> to 17<sup>th</sup> centuries, and, together with England, developed the highest degree of urbanization in Europe (Mokyr, 1976). This had two important effects on agricultural production. First, in contrast with many of its European counterparts, the northern (diluvial) provinces of the Republic did not develop an extensive agrarian-feudal dominated system, but rather thrived on the early rise of the cities in the thirteenth and

fourteenth century and the comprehensive inclusion of peasant farmers in nascent urban trading networks (Van Iterson, 1997: 51)<sup>1167</sup>. Second, the drain of labour towards the cities forced farmers to choose for technology-intensive, rather than labour-intensive production. Another factor inducing the early modernity of Dutch agriculture was the Republic's international openness and focus on trade, services, and staplemarkets. This openness, on the one hand, increased the available capital in the country, which made it possible to invest in agricultural technologies, and, on the other hand, increased the demand of rich burgers for agricultural products.

According to Giele and Van Oenen (1976), Dutch society in the first half of the nineteenth century was stratified as follows - in descending order of status rank: the upper Regent bourgeoisie (3 % of the population), the lower Liberal bourgeoisie (22.7 %), Catholic and Protestant independent farmers (22.9 %) and the Catholic or Protestant working classes (49.9 %). Protestant and Catholic clergymen, depending on their wealth, belonged either to an intermediary class between the upper and lower bourgeoisie, or to the lower bourgeoisie (Van Dijk, 1976: 132). In England, on the other hand, Tory and Whig aristocrats represented the upper establishment layer, which was of a predominantly Anglican signature. Remarkably, the lowest status layer in England was composed by agricultural farmers of an Anglican signature. Nonconformist industrialists, finally, by 1850 provided England with a broad middle class. As a late industrialiser, the Netherlands, by contrast, barely had an upcoming industrial middle class before the twentieth century. In fact, until 1850, the Netherlands had only two estates: the "poor", which included all wage labourers, shopkeepers and small farmers, and the "respectable"<sup>1168</sup>. Because of their independence and economic association at a distance with urban merchants through semi-urban marketplaces, Dutch farmers constituted the fifth and lowest rank of people in the Netherlands, after the Regents, the clergy, the commercial bourgeoisie, and even urban "common people" (Van Hamelsveld, 1791). In fact, due to the dominance of urban life and the lack of a strong landowner noblesse in the key Holland provinces, the agricultural rank was not the dominant rank in the body politic. This is not so surprising in light of the fact that even the commercial bourgeoisie from the eighteenth century onwards was kept out of the heart of the body politic: after the Dutch Revolt, the Regent class with each generation consisted of less active businessmen, so as to form a closed political elite by the eighteenth century (Boxer, 1965).

During the Dutch Revolt, and more precisely from about 1566, political conviction [based on religious value-rationalities] became more important than the "faction" of patronage to which one belonged (Van Nierop, 1984: 675); Under the leadership of William of Orange, Calvinist revolutionaries formed the first 'party' in the Low Countries. Once the main conflicts were over at the end of the sixteenth century, however, William of Orange distanced himself from radical Calvinist ideas to become a symbol of "concord" in the United Provinces (Koenigsberger, 1971). Compared to England, due to the bigger influence of protestant radicals and the lesser influence of aristocratic traditions, politics in the Dutch Republic much earlier was transformed into a vocation in the Dutch Republic. In addition, arrangements were made to allow incumbents "to make politics a permanent source of income" (Weber, 1946: 84), thus allowing a group of incumbents to become conscious of not only normative, but also material commonalities. More particularly, incumbents coupled the emergence of politics as an autonomous sphere to two dynamics. On the one hand, they claimed autonomy on the basis of their professional "diligent activism", i.e. the moral discipline of not only conscience,

but also sober and hard work (cf. Walzer, 1965). Remarkably, professional politicians did not pursue profit-gains as a primary goal, as demonstrated by them taking a distance from active business occupations, and holding on to ostentatiously modest consumption patterns. On the other hand, they legitimised the autonomy of politics on the basis of their role as protectors of the general interest of the Republic, as materialised most evidently in pragmatic-bourgeois policies.

While the Regent class' structural focus was on maintaining a form of international capitalism – thus maintaining the historical influence of the merchant class – from a political point of view, farmers were considered outsiders in the Netherlands (Goudsblom, 1988). One popular legitimisation of this outsider rank by urban residents was the supposed lack of moral standards amongst farmers: “No matter how clear you make things to them, you will not succeed in making them leave their prejudices; they will stick with their customs, because their parents have acted and talked like that.” (Van Hamelsveld, 1791: 510)<sup>1169</sup>. Paradoxically, the Dutch polity's attitude towards the countryside can much more readily be called *liberal* and *laissez-faire* than their attitude towards urban workers for two reasons. First, the Dutch elites were not landowners, but commercially oriented patricians. Especially in the northern provinces of the Republic, the peasantry as a class owned a considerable portion of the land, and the privileged class rarely possessed – or wanted to possess- the power to hold them in subjugation (De Vries, 1973: 55)<sup>1170</sup>. In addition, Dutch elites developed an international form of capitalism: their ideological dominance and economic prosperity was based on their position in international trade and banking opportunities, not domestic agriculture and industrialization. For the Dutch elites, keeping the agricultural rank from holding sway in the body politic by keeping them at an ideological distance, was enough. In contrast with urban citizens, whose economic activities were regulated by restrictive guild practices (cf. North and Thomas, 1973: 145), farmers were allowed to modernize their economic practices at will<sup>1171</sup>. Because farmer-tenants were able to develop remarkably modern properties with regards to commercialisation and production<sup>1172</sup>, and because the landowner rank was weak in the Dutch Republic, little resistance arose from this separation from the political affairs of the Republic. In fact, farmers seem to have felt well served by this separation. On the one hand, it allowed them to maintain some continuity in their life-style and traditional values – many farmers were catholics and could express their faith unencumberedly in the protestant Republic. On the other hand, it allowed them to reap the fruits of their work and thrive economically; farmers used almost all opportunities to consolidate the *laissez-faire* policy by willingly increasing production for the market (cf. Van Zanden, 2000: 54)<sup>1173</sup>.

A crucial achievement of especially northern farmers in the Dutch Republic, was the avoidance of a polity of urban exploiters. While an urban impulse to subordinate and monopolize was certainly present, it could not act unchecked in the Republic. On the one hand, by default of a central authority, the competition of the numerous cities restrained their monopolizing instincts. On the other hand, an incipient national economy rather than a series of cities with rural hinterlands was constructed from as early as the sixteenth century. Cities did not dominate nor orchestrate this process. With regards to market niches, many initiatives of agricultural specialization and occupational differentiation were instigated by farmers themselves. In this way, a commercial system took shape that flowed almost seamlessly from city to country. Politics, on the other hand, was institutionalized at

the provincial level so as to check any possibility of arbitrary rule of a city. As such, a forum was created to link politics and market issues (De Vries, 2001: 81).

Thus, especially the northern and coastal provinces were open towards market dynamics; standards of farming in the inland regions, with their predominantly sandy soils, were lower (De Vries and Van der Woude, 1997). While labour productivity in the coastal provinces was about twice the level of the sandy soil regions, the differences in land productivity were smaller due to a higher man:land ratio in the coastal provinces (Van Zanden, 1991: 40). Still, the gradual intertwining in these provinces of a rural farming economy with the flourishing urban economy in the westernmost part of the country meant this part of the agricultural country also demonstrated a higher dynamic from the late sixteenth and early seventeenth centuries. When after the middle of the seventeenth century, the Dutch urban sector started declining, agricultural prices started falling. Yet, this did not lead to less developed types of agriculture. On the contrary, Dutch farming both in the northern, coastal and southern inland provinces retained its high standards. In the highly urbanized coastal provinces, with their highly specialized labour-intensive type of farming, a trend towards extensification through the introduction of new techniques and equipment could be perceived. In the inland regions, where labour costs were lower and family farms predominated, a trend towards intensification – for instance through tobacco cultivation – became apparent after 1650. Be it through extensification or intensification, Dutch farmers incorporated important improvements which allowed them to benefit long-term benefits after 1750, when industrializing Britain's demand for livestock and arable farming products soared. Though prices of arable farming products fell dramatically after the Napoleonic period due to the flooding of European markets by Russian grain, prices of livestock and livestock products remained fairly stable. In fact, Dutch farmers profited greatly from the increasing sales of their products to Britain, Belgium and Germany (Bieleman, 1996: 14-17).

The international orientation of Dutch agriculture was impressive: in 1829 agricultural exports (40 million guilders) amounted to half the total amount of Dutch exports (80 million guilders) (De Jonge, 1996: 25). Taking into account this international orientation, the beneficial effects of the *laissez-faire* policy vis à vis farmers were visible until the agricultural crisis of the 1870s and 1880s. So, in the years after 1850 fertilizing techniques were introduced in Dutch agriculture. This allowed them to adapt their endeavours to the selling price and quantity they expected on the international market. Also, when after 1860 the expansion of employment in cities added to the shortages in the labour market, farmers readily focused on further labour-saving techniques as means to innovate. It is only at the end of the 1870's that a break occurred in the adaptability and growth of Dutch agriculture, and that the limits of the *laissez-faire* policy for farmers became clear. At the end of the 1870's international competition forced farmers to become more large-scale and specialized. Farmers had to shift their focus to land-saving technologies such as fertilizers, which made a higher output per hectare possible, and purchased feed stuffs, which were a substitute for scarce land. The lack of State intervention and credit institutions for farmers made this transition very hard. It is here that the co-operative movement, and the emergence of co-operative banks for farmers especially came into play.

In sum, the Holland merchant establishment developed a hands-off policy vis à vis farmers in the Dutch Republic from at least the fifteenth century. This establishment found its basis in a neutralization of antagonism between the city and the country in the

Republic via the economic sphere. City and country in the Dutch Republic did not form opposite and conflicting spheres, so as to ease the passage of urban patterns of life to the countryside (De Vries and Van der Woude, 1997: 714-715). Dutch urban elites eagerly associated with farmers' "independent" modernizing impulses when it came to achieving economic self-sufficiency at home and economic domination abroad. Since farmers played an important role in making Dutch international capitalism sustainable, their life-style had a place within the domestic policy establishment when it came to associative practices at the international level. Farmers themselves were not interested in exerting political-communal influence beyond the economic in the Republic, but were happy to remain independent qua values and economic income. One result of this historical political separation of the agricultural rank, is that, when at the end of the eighteenth century the first promoters of a Dutch national identity appeared, they ignored farmers as moral outsiders, and focused on moralizing urban workers (see next section). This situation would last until well into the second half of the nineteenth century. In fact, it would not be before the emergence of the agricultural co-operative movement that the population of farmers would be actively worked upon as a moral category.

## **6. The construction of a Dutch national consciousness**

The legitimacy of economic leadership in the Netherlands hinged on two elements: 1) proving continuity with the past and 2) introducing a spirit of international pacification. On the one hand, the Republic was so new that the Dutch felt an acute need to construct a national identity that showed a continuity with the period beyond the Dutch Revolt (Pollmann, 2000: 143). This tendency has inspired Dutch historians already from the fifteenth century. From that period onwards to the creation of the Batavian Republic in 1795, Dutch historians, in search of a national identity, increasingly focused on the Batavians, the tribe once described as especially freedom-loving by the Roman historian and provincial governor Tacitus. On the other hand, the prevalence of Dutch city merchants as the leading class in the Republic explains the Dutch habitus to pacify conflicts. Instead of a military style of armed conflict, the art of governing with the help of negotiation and compromise was passed on first from the city of Antwerp (Tawney, 1926), and later from Amsterdam and Utrecht. In fact, Dutch city merchants provide an exemplary case for the question of how to protect civilians from violent external attack without being dominated by their own military helpers (Elias, 1996: 11-12). Dutch naval captains were in large part from the middle and petit-bourgeois strata. On land, on the other hand, the Republic mainly fought with the help of mercenaries, commanded by the members of the one important noble dynasty, the Protestant House of Orange.

The pragmatic, highly bourgeois policy establishment emanating from the leading Dutch cities, inspired the Dutch to attempt to make internationally neutral policies after the Dutch Revolt, and eagerly accepted the fruits of other people's revolutions. So, with the exception of the Belgian Revolution in 1830, the most disruptive Dutch episodes (since the Dutch Revolution against Spain) were almost totally non-violent in contrast with the French Revolution of 1789. Nevertheless, despite this search of continuity, the evolution of the Dutch policy establishment from the end of the eighteenth century was more similar to France's revolutionary path than England's gradual path (cf. Stuurman, 1993: 96-97). In less than sixty years, several revolutionary steps were made to transform the Dutch Republic into a centralized State modeled after the French, as exemplified by the Batavian Revolution in 1795, the Belgian Revolution in 1830 and the revolutionary Reform of 1848.

Though the Netherlands received an executive monarchy in 1814, all the major governing crises in the Netherlands were linked to the revolutionary process in France. The Batavian Revolution succeeded thanks to the help of French military intervention; the Belgian secession was triggered by the July Revolution; and the Great Reform of 1848 was made possible by the revolutionary wave going through Europe with France as the epicenter.

After this sixty year long period of relative disruption, the search of continuity settled in again in the Netherlands. First, with the institution of Willem I of the House of the Orange as the king of the Netherlands in the 1814, the centuries-old relationship between the House of Orange and the Dutch commercial classes has been preserved. In addition, despite the formal change of the Netherlands into an absolute monarchy narrowed the responsibility of the States-General, this parliamentary assembly retained considerable power (Elias, 1996: 11-12). Second, after hearing of the February Revolution in France that was quickly spreading to other parts of Europe, king Willem I decided it was time to calm down tempers in his own country. He set aside his rivalry with the Belgian king, and pre-empted the revolutionaries' claims by commissioning a constitutional revision, which before he had consistently denied Dutch liberals. As the King himself admitted, on March the 13th 1848 he changed from ultra-conservative to ultra-liberal within 24 hours (Andeweg, 1989: 45). With the constitutional reconciliation of Willem I and the Dutch liberals in 1848, the established and emerging elites settled for more stability. The acceptance of ministerial responsibility and direct elections for the Second Chamber in 1848, and several other reforms drafted by the liberal leader Thorbecke, were the most significant concessions made by the king. Of course, it took decades before the legal change led to the recognition in practice of collegial cabinet government, and of the necessity for a government to enjoy the confidence of a parliamentary majority.

A third explanation for the constitutional stability after 1848, finally, is that liberals and conservatives, the dominant political elites in the second half of the nineteenth century, chose to forge a national identity reminiscent of the Golden century (1580-1670), i.e. as a politically stable, pacific and neutral nation, with a central role in the international economy. To make this identity viable, the Netherlands was now pictured as a big nation with a small economy, instead of the small nation with a big economy of the Golden century. In addition, the revolutionary political period at the turn of the nineteenth century was erased from national memory. For instance, there was no commemoration of the hundredth anniversary of the Batavian Revolution in 1895, the period from 1795-1813 was called the "French period" in school books, and the year 1813 was glorified as the year of the national liberation from French tyranny. Only the year 1848 found an organic place in national memory, as the date of the conciliation between king Willem II and the liberal camp (Stuurman, 1993: 97). Instead of the revolutionary French period, the more "civilized" and reformatory English influences were emphasized. Not surprisingly, these influences were deemed more appropriate for building the identity of an international nation with an open economy. In this way, the conditions were shaped to build a national consciousness emphasizing the continuity of the political and the economic.

## **7. Leadership in the Dutch Co-operative movement**

The success of Co-operative banking in the Netherlands would depend on the availability of "leaders of sufficient authority", as the 1872 report of the State Commission on Agriculture stated. Social liberals, though very supportive of Co-operative, did not manage to become leaders of the working classes – in the farmers they were not

really interested. Liberals, old and new alike, favoured a laissez-faire policy and emphasized the virtues of individuality. They became promoters of self-help, rather than paternalism<sup>1174</sup>. As members of government, liberals felt they could not directly intervene in the market. This approach at a distance proved to be unrealistic and impracticable for the targeted classes. During the 1880's the labour movement and the social liberals drifted further apart, mainly because the new liberal leader Treub, faced with the emergence of a socialist party, was taking a much more anti-socialist position than his predecessors. Treub did not expect anymore that charity, self-denial and mutual help would spontaneously emerge from civil society. Instead he now promoted a strong social politics from the State so as to impose forms of solidarity and the superiority of the general interest to the private interest. Though Treub (1897: 157-158) had less hopes in Cooperation, he still felt positive about it. What had fundamentally changed however, was that Cooperation was now entrusted only the elements of morality, independence and productivity, and not so much solidarity and self-denial in favour of the general interest .

The first Co-operative leaders to emerge were socialists. This is not surprising, since socialists were the first pillar to actively organize for action amongst the working classes. So the first association that can be rightfully called a trade union was the General mutual helpfund "Typography" ("Boekdrukkunst"), founded in 1861 in Amsterdam. This union worked towards the purpose of "giving moral and material help" to its members (Brugmans, 1929: 265), an idea to be picked up by the Co-operative banks in a later stage. In 1866, the typographers decided to organize themselves interlocally, by founding a national trade union. This idea of local-national organisation was picked up too by the Co-operative banks. Finally, the advise of the leaders of the Dutch Internationale, long before the existence of Co-operative banks, was to "found self-help banks, savings banks, and shop unions...to help and support each other" (Brugmans, 1929: 271).

Whether socialist leaders had sufficient authority, is another issue than the innovativeness of their initiatives. Before the 1880s, socialists' strategies were too intellectual-rational, too diluted and not antagonistic enough. For instance, in 1869 the first Dutch section of the Internationale was founded, by a few youth that were not content about the progress of the workers' movement. Typical for the cautious mentality prevalent in the Netherlands, the Internationale was not markedly socialist or revolutionary, in the sense of aiming at the communalization of privately owned production resources. Instead the statutes of the Internationale were markedly vague, with the purpose of binding as many workers as possible from all different strands to the workers' movement. In addition, all violence was condemned, "because existing laws have to be respected, because they are deemed to represent the will of the majority of the people" (Brugmans, 1929) . As a result, socialist hardliners were alienated and newcomers were not getting clear messages. Surprisingly, with the emergence of the much more radical labour union SDB in 1881, the tendency totally shifted towards extreme antagonism against the existing capitalist system. Yet, by default of a grassroots radical movement, a strange split became clear in the purposes of the socialists with regards to Co-operatives. On the one hand, in line with Marxist theory, already established Consumer Co-operatives were deemed to be much too profit-oriented, i.e. a continuation of capitalist tendencies. On the other hand, the socialists needed these co-operatives for economic reasons, i.e. to invest money in the socialists' labour movement. These mixed signals did not help socialists in gaining much authority as Co-operative leaders.

The first leaders of sufficient authority were catholic priests and protestant publicists, who, inspired by Pope Leo XIII's *Rerum Novarum*, increasingly took interest in the lower classes' fate. Up till then most moneyed catholics rejected social legislation and labour strikes; they preferred to preserve the customary paternalistic charity system around local churches. With the encyclical *Rerum Novarum*, the pope signalled that social problems had to be resolved through association between the classes, not class antagonism. Still, he claimed that workers had the right to defend their rights and that social legislation was in order. Though the *Rerum Novarum* was written in reaction to the threat of the socialist movement with regards to the urban working classes, Dutch catholics were convinced that it was even more relevant for farmers. A first catholic leader that emerged was the local Norbatim Gerlacus van den Elsen, representing farmers in the southern provinces of the Netherlands. Van den Elsen, as most catholics, was allergic to revolutionary changes. In order to prevent peasants losing patience and reacting against the authorities, as the socialists would do, he urged Catholics to take all possible non-violent action to improve the living conditions of farmers. So, he stated: "the concerns of the church are not only limited to the salvation of the souls, the church does not oversee the things that belong to the moral life...Therefore, I cannot provide a better advice to our farmers than to run to their clergymen and ask them for guideness and leadership." (*NoordBrabantsch Dagblad*, november 24th, 1892). Two factors made the appeal of confessional leaders even greater. First, the socialist movement was not so large that it could not be contested. Second, the Protestants were already emancipating due to a struggle with the liberals to get the government to finance denominational schools.

With regards to agriculture, Christian Publicists insisted that the agricultural class itself should take command of its condition through purposive organisation. In doing this, they pointed to the success of farmer organisations in Germany and Belgium. This success was contrasted with the work of the existing provincial agricultural societies, of a liberal nature. These liberal societies did not appeal to the publicists because they reduced the needs of farmers to a purely economic-technical problem, and failed to plead for more agricultural production. The ultimate proof of this was that the liberal societies did not even bother to organize the collective purchase and sales of feed and fertilizers.

## **8. The emergence of Dutch Labour Unions**

In most European countries the emergence of political contestation – in the form of socialism and labour unions – and economic industrialization went hand in hand. This was not the case in the Netherlands, which lived its first wave of industrialization at the moment England was in the midst of its second wave. Because of the belated industrialization of the Netherlands, an according to European standards peculiar situation arose in the Netherlands. Socialists became politically involved before an industrial working class had formed (Brugmans, 1929: 295; Holthoon, 1985: 321). Contemporaries testified to an enormous lack of capitalistic mentality in Netherlands until 1870 (Brugmans, 1929: 59). Until about this year, the prevailing idea in the Netherlands was that differences in classes were instituted by the Will of God. Only in the 1870's did the Dutch working class gradually wake up to the fact that they had to take up the improvement of their own condition; it is around this period that the first unions were founded and the first signs of a co-operative movement became perceptible.

In fact, the first labour union established in the Netherlands was social-liberal of character. The ANWV was founded in 1871 by artisans. Though the ANWV officially

was religiously neutral, it in fact accommodated many protestants. The ANWV strove for better working conditions, higher wages and better social legislation – just like the confessional and socialist unions would later. Contrary to the socialists, however, the ANWV wanted to maintain harmonious relationships with employers; they did not want to tamper too much with the existing separation of the political and the economic. The ANWV, supported by the Commission in charge of discussing the “social question” in the Netherlands in the 1860s and 1870s, saw the promotion of Co-operation as one of its main purposes. After 1875, the orthodox protestants decided to separate from the more liberal protestants, by establishing their own union, called Patrimonium . The more paternalistic appeal of Patrimonium directly led to the decline of the ANWV, which without avail called for more self-help and individual initiative amongst workers . Different from social-liberals, the protestants saw consumer co-operation always in connection with socialism. They therefore were ardent enemies of any consumer co-operation. The union established by Catholics in 1888, the RKV , apart from being a weakly organized union, until the beginning of the twentieth century shared the protestant belief that consumer co-operation was contrary to a natural world order based on the will of God (Otten, 1924: 143). Yet, after the railway strikes of 1903, the catholic labour union woke up to the socialist challenge. Even more conservative catholics started to understand that a national labour union was necessary to counter the red threat, be it under the conditions that a priest would supervise the union, and members were also affiliated to a catholic church. As a consequence, more and more voices in favour of consumer co-operation could be heard. Despite the resistance against consumer co-operation shown by the shopkeepers and local traders during a meeting of the RKV in 1900, the new argument a few years later was that “few shopkeepers would be bothered by consumer co-operatives” (Aengenent, 1909: 199); only the less competent shopkeepers that already were heading for bankruptcy would be hurt.

The socialists for their part, at first were not very successful either. For a long time, Dutch socialists had to derive their purpose from intellectual inspiration from other European countries, rather than the actual needs of the working class. In addition, part of the constituency of the socialists were not urban workers, but farmers; socialists had to deal not only with the social problems of the workers, but at the same time had to consider the totally different difficulties experienced by farmers as well. As mentioned before, this strained the socialists to develop a labour-movement based on the labour-capital antagonism inherent in a “pure Marxist ideology” (De Beus et al., 1989: 54). Rather, especially before 1880 (and again from 1905 on), it made them willing to make compromises. It is only in the 1880s that the socialists’ calls for proletarian action found grassroots support amongst the worse-off workers. In 1880 all local unions came together in the national union SDB . In the best Marxist tradition, the SDB strove for a total union of political and economic affairs. The SDB’s purpose was to institute a classless society and abolish private property. While a substantial amount of workers joined the SDB, almost no farmers however joined. Unhappy with the non-compromising nature of the SDB, a new socialist party was founded in 1894, the SDAP, which ultimately also wanted a union of the political and the economic in a classless society, but, in the mean time wanted to press practical reforms in the existing capitalist system. Subsequently, in 1905 a much more moderate labour union, the NVV , was established, as an affiliate of the SDAP.

## 9. Leadership in the English Co-operative movements

### a) Owenite Co-operation

Robert Owen, the Welsh-born manufacturer and utopian millenarist, is often the starting point for any history of Co-operatives. Owen's views on improvement for the working classes positioned co-operation beyond the « irrational » limits of class (cf. Tsuzuki, 1971: 33-35). Calling classes the embodiment of the false principle of division in the old England, Owen endeavoured the opposition « productive / non-productive » and the principle of « but one class » for Chartist forces of class struggle. In doing this, he depended to a large extent on the voluntary benevolence of the middle class, which « possess the greatest breadth of useful knowledge within its circle to form a Rational Community », and the upper class, “with their trained perceptions of the principles of policy and of being governed” . Fraught with the prejudices of his own class, Owen's socialism was antagonistic to any form of people's democracy. Rather than being a defender of the status quo in politics – as many contemporaries accused him of , Owen was more of a cynic of any type of low politics, as he distrusted any authority established on the principle warring interests .

When he came back to England in 1829, he found a changed political climate; most notably, the repeal of the Combination Laws made possible the development of trade union activism in particular and self-organisation by the workers in general (Youngjohns, 1954: 21-23) . While under Owen's leadership two bodies of working-class activity were founded in the 1830s, the peaceful Equitable Labour Exchange and the more revolutionary Grand National Consolidated Trades Union , the combined offensive of government, courts and employers soon led to their downfall .

After the collapse of the Union, working class leaders increasingly turned their attention to Chartism and its campaign to gain the vote as a means to improve their situation. Owen did not share this "Chartist" dream. He believed that whilst there are rich and poor, the rich will rule - whoever has the vote. After the collapse of the early co-operative store movement and of the Grand National Consolidated Trades Union, non-violent Co-operation went into eclipse. The working classes turned their attention to direct political action, to the ten-hour movement and to Chartism.

### b) Violent Co-operation

Though Owenism, as an elitist movement, made a certain impact on Chartism, many Chartists rejected Owen's antagonism for democracy. Unlike Owenism in the 1820s and 1830s, Chartism , as a movement for Parliamentary Reform and an attempt to restore by political means the workers' right to the whole produce of labour , from the late 1820s onwards was uniquely successful in mobilizing the co-operation of whole communities and of whole trades. Often called the first working-class movement – though this has to be very broadly interpreted – Chartism's strength peaked in times of depression and unemployment: 1838-39, 1842 and 1847-48 .

Following the “Great Betrayal” of the middle ranks, « the two classes were ranged against each other in a hostility which daily grew more bitter » (Briggs, 1956: 70). More correctly, after 1832, antagonism between workers and the middle ranks was increasingly cast in terms of classes, as exemplified in case of the Anti-Corn-Law League – that “uniquely powerful instrument in the forging of middle-class consciousness” (Briggs, 1969: 59). The industrialists leading the League declared that the repeal of the Corn Laws would mean lower food prices, better trade and greater freedom. The Chartists

replied that repeal would not make any difference without political power; many Chartists did not believe in the salutary effects of laissez-faire "free trade". When in 1846 the Corn Laws were repealed and trade improved in many industry sectors, the Chartists' discursive legitimacy in the eyes of many working men took a heavy blow. The introduction of "free trade" economic reforms in addition to social reforms under the Conservative government of Peel undercut Chartism. By 1850 the prophecies of the Chartist leaders had foundered, those of the Anti-Corn League had gained credibility. As the decades passed, working people increasingly looked to parliamentary action to protect their autonomous organisations, rather than as a means of greater government intervention. So, as workers wanted freedom for trade unions to operate rather than government intervention in wage bargaining, they similarly wanted protection for the funds of their own organisations of self-help, rather than government aid. In other words, gradually, the working classes became supporters of the laissez-faire correlative of free trade finance.

The strength of Chartism had lain in an unquestioning belief in the efficacy of political change to bring about social improvement. In the late forties many of these ideas were no longer so potent. In addition, the fact that the Irish in England contributed an important element to Chartism at all levels divested it of much of its original English and constitutional appeal. Besides ruining all chance of political support from the House of Commons, the Irish angle of Chartism created much division in the working classes, and ultimately lost the movement much popular support. As testified by Marx himself: "Every industrial and commercial centre in England now possesses a working class divided into two hostile camps, English proletarians and Irish proletarians. The ordinary English worker hates the Irish worker as a competitor who lowers his standard of life. In relation to the Irish worker he regards himself as a member of the ruling nation and consequently he becomes a tool of the English aristocrats and capitalists against Ireland, thus strengthening their domination over himself. He cherishes religious, social, and national prejudices against the Irish worker."

As became clear in the writings of Francis Place, many of the non-Irish Chartist leaders of the middle ranks – later classified in the groups of either philosophical radicals or labour aristocrats – saw themselves not as leading a mass Movement, but a political pressure group working to persuade the electors and to educate the non-electors in the need for democracy. They resented the way in which a movement which they had nurtured in its earliest days had been perverted from its "rational and peaceful" course by a mass of irrational and violent anti-Poor Law protesters – most notably the Irish radical Feargus O'Connor. In trying to distance themselves from the working-class image conjectured by the elites during the period of violent Chartism, namely that of "the masses as an irrational and potentially savage mob", these leaders increasingly favoured an "anti-Statist", voluntarist style to achieve their purposes. As such they joined the many other lower-ranked elements that already were aloof of politics out of tradition, dependence or belief. In fact, they faced up to the new reality that, in face of Chartism's lack of a viable and constructive alternative, many trades had already begun to organise for more limited but achievable aims (Thompson, 1984: 319-320; 333-334; 389-393).

The voluntarism of the workers could take different courses, all of which in some way were connected to religion. First, many unskilled workers took recourse to numerous competing sects, which rather than dealing with the problems of the proletariat, evaded them. Second, more and more workers joined trade unions and – to a lesser extent – the Co-operative movement – which often sprung out of Chapel life, and typically were led by

Nonconformist men – mostly Methodists but also Wesleyan Baptists. In fact, though rarely mentioned in Co-operative histories or theories religion played an all important, though peculiar role in the rise of English Co-operatives in particular, and working-class institutions in general. Many of the promoters of the co-operative philosophy were middle ranked people whose beliefs arose much more from religious ethics than from a socialist vision (Thornley, 1981: 6). In addition, Dissent, or Nonconformity, played a twofold historical role in bringing about new organisational styles in England (Perkin, 1969: 196). First, Nonconformity was a means to express emancipation from paternalism and the dependency system before it had matured in overt class antagonism. Second, Dissent provided the model for class organisation; it was an active example of the benefits of non-violent organisation geared towards improvement. Especially the lower and lower-middle ranks of early industrial society were receptive to Evangelical Nonconformity (Gilbert, 1976: 83-87). The Methodist movement in particular proved to be hospitable to the symbolic expression of status withdrawal and independence for artisans, tradesmen, and manufacturers. Since several of the founding fathers of the Rochdale Co-operative were handloomweavers, their beliefs are of special relevance to this study. Between 1740 and 1820, handloom weavers turned massively to Nonconformity. In doing this they found a way to make sense of the relation between economic rewards and their own industry and entrepreneurial skill. Infused with the spirit of “freedom and independence” and a “consciousness of the value of character and of their own weight and importance”, handloom weavers perceived their economic position to be dependent mainly on their own exertions.

Nonconformists’ predilection for an organisational style geared towards promoting moral self-help via the market went hand in hand with an alternative version of laissez-faire free trade: «voluntaryism». Voluntaryism was a subtle mixture of traditional Dissenting ideals and political liberalism (Ellens, 1994: 269). The voluntary principle was “a version of laissez faire with religion and education at its heart, couched in the language of political liberty” (Helmstadter, 1979: 149). Anglican privileges concerning education and ecclesiastical taxation became the focal points of antagonism between voluntaryists and establishmentarians. That a nonconformist, voluntaryist thread runs through the history of Co-operation will become clear in the next section, when I shall discuss Co-operation between labour aristocrats from the end of the eighteenth to the second half of the nineteenth century.

c) Labour aristocracy Co-operation

Less conspicuously than the later Owenite movement, the lower middle ranks – coined “labour aristocracy” in the 1850s – from Yorkshire, the naval ports of the south of England, the East and West Midlands and East Anglia had already started their own practical-ethical movement in the late eighteenth century. As noted by Bamfield (1998: 16-17; 30-31), the co-operative bread and flour societies of the late eighteenth and early nineteenth centuries had already adopted many of the practices of the co-operative movement as it developed after the Rochdale Pioneers in the 1850s. These early societies were founded in particular where the corn market was leading to bread shortages during 1795 and 1816 (Alexander and Akehurst: 1999: 8-9). More generally speaking, in the period from 1759 until 1820, about 46 flour and bread societies were established in England and Scotland “for the Purpose of Reducing the Unexampled Prices of Bread and Flour, and to Prevent the Adulteration of these Articles with Materials of Inferior and Pernicious Qualities”. There were four main categories of flour and bread company, small

flour clubs, shipwright societies (in naval dockyards), friendly society corn mills, and joint stock flour and bread companies. The large societies such as the Hull Anti Mill, the Sheffield Club Mill, and the Birmingham Flour and Bread Company were vertically integrated consumer organisations operating with transferable stock.

In line with Thompson's (1971, 1991) writings on the lingering "moral economy" in eighteenth and nineteenth century England, these societies combined business practices with moral ideals. So, apart from the antagonism against adulteration and exploitation by local millers and bakers, the societies provided bread and flour to a subscribed community below local "market prices" and were owned directly by consumers or operated indirectly through a friendly society. The members and leaders of these societies were antagonistic to the material exploitation by local monopolists who "fixed" market prices (Birchall, 1994: 4). Thus, rather than identifying the market as a site of material exploitation, they saw it as a means of moral improvement against local monopolies that thwarted the natural workings of market prices. In contrast with the often violent protests against the disruption of the old moral economy, the leaders of these societies were preaching non-violent economic dissent, in line with non-conformist preaching. Also noteworthy, is that, generally speaking, the labour aristocracy viewed technological innovation as a debasing threat to their higher artisanal culture. So, "dishonourable" workshops employing workers who had never had a "proper apprenticeship" (Birchall, 1994: 6) threatened "on every side by technological innovation and by the rush of unskilled or juvenile labour" (Thompson, 1968: 289).

#### d) Christian Socialist Co-operation

Out of fear of Nonconformist encroachment, the Anglican Church had systematically enforced its parochial system in the south, the southern Midlands and the south-east, especially in the agricultural regions. In alliance with the "landed interest", Anglicanism had grown stronger in agricultural areas than among more urban populations engaged in manufacturing or commerce. By the 1830s, however, the population balance in England had been transferred from agrarian to manufacturing and industrial areas, and from southern and south-eastern England to the Midlands and the north. Yet, it was precisely in these areas that the parochial system was poorly established and ill-equipped to meet the needs of pastoral guidance (Gilbert, 1976: 110-112).

Faced with the violence of Chartism, a number of clergy in the Church of England reacted by actively demonstrating their sympathy for the working classes' plight. As a « union of the Church, the gentlemen and the workmen », i.e. an alliance of Tory-paternalism and Whig-gradualism, the so-called « Christian Socialists » from about 1848 looked upon those who « stand rather upon birth and inheritance » to « provide moral guidance and leadership to the masses ». To become leaders of the masses was not easy: a large part of the working class was very sceptical about the Anglican Church, because it was considered to be exclusively geared towards the well-to-do and respectable. The Establishment's attitude vis a vis the miserable living conditions of the poor at best was perceived as indifference.

The Christian socialists revived the producer co-operative movement in the 1850's. Christian Socialists were a group of middle class lawyers and clergymen concerned at the neglect of Christian obligations of people to each other. With little knowledge of the co-operative experiments by Robert Owen and the Rochdale Pioneers, but heavily inspired by the French associations *ouvrières* of Louis Blanc and Charles Fourier, the Christian socialists invested large fortunes into co-operatives, used their

influence in Parliament to get laws passed benefiting co-operative formation and publicising their ideas widely. Different from the other Co-operative leaders, Christian Socialists were politically conservative, and skeptical of radical liberalism. Despite these differences, the Christian Socialists won the confidence of organized labour because they were capable of acting as mediators between the Government and the working-class movement. They helped to transform the State's attitude to working-class institutions from one of hostility to one of cautious benevolence: they had a hand in the legalization of Co-operative enterprise by the Industrial and Provident Societies Acts of 1852-1862, in the protection of friendly society and trade union funds in 1855, in the legalization of peaceful picketing in 1859, and in the favourable report on the unions by the Royal Commission of 1867 and their legalization in 1871.

The movement survived only seven years but had a lasting impact on co-operative development. Noteworthy is that the Christian Socialists teamed up with the leaders of the older flour mill societies in southern England – and not the northern Rochdale leaders – in establishing the important legal framework for co-operatives in the 1852 Industrial and Provident Society Act. With this act, effective protection was given to the assets of flour and bread companies, and the shops and depots of the Rochdale Co-operators (cf. Purvis, 1992). Apart from giving Co-operatives a legal standing and limited liability, Christian Socialist movement was also important in leaving behind devoted supporters such as Neale and Hughes in the Co-operative movement of the second half of the century (Thornley, 1981: 21). Last but not least, while the Christian socialists did not manage to win back workers in large numbers to the Church, at least they managed to neutralize their hostility in the Co-operative movement (cf. Perkin, 1969: 364).

#### **10. Dutch Consumer Co-operatives**

Surprisingly, the first consumer co-operative in the Netherlands, the “Onderneming van Werklieden” founded in 1860 in Rotterdam, was of a protestant signature<sup>1175</sup>. The co-operative was a failure for two reasons. First, the organisation held on to the purpose to organize the co-operative in accordance with the will of God (Scheffer, 1964), and in close co-operation with philanthropic employers. At a time when workers were passive about their condition precisely because of the fatalistic atmosphere associated with philanthropy and legitimation in terms of the will of God, the initiative did not trigger much interest and response amongst the workers. Apart from this failure to carve out a value-rational niche, a second reason for the failure was that workers were not skilled in shopkeeping, and were experiencing much competition from local shopkeepers and tradespeople with more expertise and experience. Though a failure, the organisation principles of this first consumer co-operative would be copied by the consumer co-operatives to come.<sup>1176</sup> Subsequently, the social-liberal union ANWV set up consumer co-operatives in the 1870s. Increasingly, the social-liberals saw Co-operation as a means to throw up a dam against the “red revolution”<sup>1177</sup> (Oosterhuis, 2000:53). According to the social-liberals, “the co-operative shop is the preparation for the highest degree of co-operation: worker co-operation” (Kerdijk, 1873: 46), be it within the existing political-economic constellation of capitalism. The consumer co-operatives set up by the ANWV also failed, mainly because of their focus on the ultimate purpose of co-operation, worker co-operation. So the social-liberal propagandists' purpose was to enable workers to raise capital through consumer co-operatives, this at the expense of the payment of dividends. The focus on ultimate purposes at the cost of practical cash-value caused the undoing of

the ANWV's consumer co-operatives<sup>1178</sup>. Of the fifteen co-operatives founded between 1860 and 1873, twelve went bankrupt after a short time<sup>1179</sup>.

Amongst catholics, consumer co-operatives were most successful in the southern provinces of Limburg and Brabant. One reason for this success was that catholic co-operatives already from the 1870s operated within an ideological monopoly in these provinces, a privilege that socialists and liberals did not enjoy. Using this isolation, catholics did not feel compelled to formulate ultimate purposes like the socialists or social-liberals did. The purpose of the catholic consumer co-operatives was to "create better living conditions for catholic workers". Apart from moral elevation, ultimate purposes – such as the abolition of profits or private property in worker co-operatives – did not play a big role in catholic purposes. If one ultimate catholic purpose has to be pointed at, it probably was to counter socialist influence amongst workers (Oosterhuis, 2000: 71).

Socialists, for their part, propagated consumer co-operatives under strict conditions. As testified by the secretary of the SDB – the socialist union: "We can not dismiss co-operation as a means to struggle. But the utmost should be done to ensure that the co-operation is driven in the sole interest of our [socialist] party and with some scale. Above all: profits should go to the party and should not be distributed amongst the members." (Croll, 1887)<sup>1180</sup> Yet, after the troubles they went through with often liberal-minded directors of the consumer co-operatives, the SDB and the Dutch Internationale took an ideological distance from co-operatives. Remarkably, despite the fundamental anti-consumer-co-operative stance expressed by socialist leaders, co-operative plans were still concocted in socialist practice. Precisely because some socialist co-operatives – like the "Arbeidersmaatschappij" and the "Volharding" – had already achieved a sizeable scale, they were keen not to lose control of the co-operatives. For instance, because the co-operative Volharding "spent her important profits completely on dividend payments" and "this was not the purpose of [socialist] co-operation" (Vliegen, 1904: 95), some socialist leaders were brought in the Board of Directors of the mentioned co-operative.

Up to the 1890's consumer co-operation was a marginal phenomenon with only 22 societies in 1890. These mainly were civil servant co-operatives – as the Co-operative "Eigen Hulp" – or initiatives of social-liberal leaders. With the foundation of the socialist party SDAP in 1894, however, the consumer co-operative movement gained some momentum. With larger grassroots support than a decade ago, the purpose of consumer co-operation to give support to the labour union and the party became more tangible. As a result, socialist consumer co-operation grew steadily until WWI. Yet, the enmity of local shopkeepers and tradespeople<sup>1181</sup>, and the increasing antagonisms between catholics, liberals, socialists and protestants unmistakably led to increasing fragmentation and division of the so-called « consumer co-operation movement ».

A first tendency of unification was the association of the socialist co-operatives with the neutral Dutch Co-operative Union NCB (Nederlandsche Coöperatieve Bond) in 1905. Yet, the socialist co-operatives remained affiliated to the socialist Union, the BVNAC (Bond van Nederlandse Arbeiderscoöperaties) for non-commercial purposes. The socialist consumer co-operatives had to keep giving important financial support to the party and the labour union, to the expense of dividend payments to the own members. As such, the split between value-rationalisation – being a member of a consumer co-operative to serve the ultimate goal of a socialist society – and instrumental-rationality – the practical cash-value of being a member of a consumer co-operative – became even more evident. When the BVNAC decided to abandon the principle of profit transfers after WWI,

a fusion with the NCB became possible. Yet the fusion at a national level in the CBNV<sup>1182</sup> in 1920 was only a symbolic success. Because pillarization had grown to a peak by 1920, regional fusion plans were mostly not realised.

From a symbolic viewpoint, consumer co-operatives were triumphant during the First World War (Oosterhuis, 2000: 85). From the outset of the war, panic amongst hoarding families led to substantial price increases for foods on the market. Price increases of 50 percent were very common. Yet, it soon became clear that consumer co-operatives in many regions led to the moderation of prices (Oosterhuis, 1924: 86). The price-regulating influence of the consumer co-operatives during WWI was not left unnoticed ; especially in the southern catholic provinces, a spectacular growth in the number of co-operatives ensued, with the main purpose to win the fight against rising prices. So, while in 1915 only 17 consumer co-operatives were affiliated to the catholic union RKB, in 1918 that number had waxed to 192 (Groeneveld, 1938: 123). Yet, the war years had created unrealistic expectations. Especially smaller co-operatives succumbed in the crisis years 1921-1923. So, the number of catholic co-operatives affiliated to the RKB waned to 99 in 1924.

From an economic viewpoint, however, the war years in general were very hard times for consumer co-operatives: the co-operatives suffered from a lack of foods, which greatly halted the development of their normal activities. Co-operative Banks, on the contrary, were able to obtain enormous war profits, which earned them the stigma of “War Profit Makers” by consumer co-operatives: “From 1913 to 1919 the credit balance of Farmer co-operative banks increased from about 52 million guilder to almost 228 million guilders, mortgages were payed off early, and the earnings from the security on golden and silver objects rose steadily and this money came out of the pockets of the farmers. *Obviously, that money first had to come out of the pockets of others.*” (De Jong, Deel I: 42, italics added)<sup>1183</sup>

Why did Dutch consumer co-operatives<sup>1184</sup> get into their stride very slowly in the Netherlands, contrary to for instance England? There were at least three reasons for this lack of success. First, consumer co-operatives were the target of effective antipropaganda of local merchants. Second, the local merchants, who almost all were catholics or protestants, found support for their anti-propaganda amongst protestant-christians as well as roman-catholics. This is because in these milieus, consumer cooperation was deemed contrary to justice, in that it threatened the business of fellow merchants, and charity, because it was profit-oriented and consumerist of character. Third, consumer co-operation was mostly a liberal and socialist endeavour; it was a public secret that protestants..and catholics were against consumer cooperation because of this reason (Oosterhuis, 2000: 69).

As such, members of the so-called “consumer co-operative movement” never really felt united in a common front (Oosterhuis, 2000: 73). Despite its officially neutral character – in accordance with the English Rochdale principles – antagonistic elements between liberal, socialist, and catholic purposes impeded this. Because of the permanent division between these three groups, a reaction-counter-reaction cycle developed: when a co-operative became too socialist according to some of its members – as in the case of the co-operative “Volharding” in The Hague – the members proceeded to the foundation of an anti-socialist co-operation – in this case called “De Hoop”. Conversely, when a majority of members chose for a neutral purpose in a historically “red” co-operative – as in the case of the “Vooruitgang” in Rotterdam – then socialists proceeded to the establishment of a competitor – the “Voorwaarts” in this case. Finally, when a big catholic co-operative managed to establish a strong position in a locality – as “Ons Dagelijk Brood” did in

Heerlen – then a red co-operative was established to counter this influence (“Gluck auf”) (Oosterhuis, 2000: 82-83).

As a result of all these divisions, the discursive legitimacy – the political ability to overcome dissent and rally a population’s beliefs around a common purpose – of consumer co-operation as one movement never was significant. In addition, the total economic resources of the Dutch Co-operative Wholesale Society<sup>1185</sup> was much lower than in other European countries. In 1913 (and 1920), the turnover in the Netherlands was 4,561 Guilder (14,613), in Germany 91,486 guilder (+- 210,000<sup>1186</sup>), in England and Wales 379,382 guilder (1,275,087), in Scotland 108,464 guilder (357,554). More tellingly, this remained true when these amounts were averaged per head of the population in the different countries. So, in 1913 the average amounted to 0.73 in the Netherlands, 1.36 in Germany, 10.40 in England and Wales, and 22.99 in Scotland. In 1920 these figures were respectively 2.13 for the Netherlands, 33.98 in England and Wales, and 73.56 in Scotland (Otten, 1924: 173).

From a normative viewpoint, consumer co-operatives were triumphant during the First World War (Oosterhuis, 2000: 85). From a material viewpoint, however, the co-operatives suffered from a lack of foods, which greatly halted the development of their normal activities. From the outset of the war, panic amongst hoarding families led to substantial price increases for foods on the market. Price increases of 50 percent were very common. Soon, it became clear that consumer co-operatives in many regions led to the moderation of prices (86). The war years in general were hard times for the less wealthy people. Others, on the contrary, were able to obtain enormous war profits, which caused them to be called “War Profit Makers” (Oorlogs Winstmakers). According to socialist De Jong, the farmer credit co-operatives were prominent War Profit Makers: “From 1913 to 1919 the credit balance of Farmer co-operative banks increased from about 52 million guilder to almost 228 million guilders, mortgages were payed off early, and the earnings from the security on golden and silver objects rose steadily and this money came out of the pockets of the farmers. *Obviously, that money first had to come out of the pockets of others.*” (De Jong, Deel I: 42, italics added).

Dutch consumer co-operative leaders blamed the pillarisation movement for the fact that the Co-operative movement was not considered a third pillar of the Labour movement in the Netherlands, as in England. After WWII many co-operators expected that a start would be made of the depillarization of politics, trade unions and broadcasting networks. With that idea in mind the PVDA was formed in 1946. Yet, the PVDA did not succeed in becoming much stronger than its precursor SDAP at the elections of 1946. A strong confessional front still was blocking any breakthrough. A notable exception took shape in the reunion of socialist, catholic and christian consumer co-operatives in the Central of Dutch Consumer Cooperatives (Centrale van Nederlandse Verbruikscoöperaties) in 1947 (Oosterhuis, 2000: 136-138). The catholics posed a condition for this reunion in one Central: the purpose of this central had to be limited to exclusively commercial ends “that of course are assumed...not to be conflicting with catholic morality”. Christians reacted in a similar fashion. As a consequence, it was agreed that a merger of the three ideologies could only be issued in terms of a strictly limited purpose: the promotion of the consumer interest. Striving for this purpose would be a guarantee for “reaching the largest possible prosperity, because the battle for power and profit for a few would be replaced by cooperation for the benefit of all” (De Verbruikscoöperatie, brochure 1949: 36).

While consumer co-operatives in Finland and England respectively claimed about 31 and 10 percent of retail trade business in 1970, consumer co-operatives only accounted for a mere 1 percent in the Netherlands (Intermediair, June 21<sup>st</sup> 1974). What is more, after a particularly disastrous year 1973, the most important Dutch consumer co-operatives were declared bankrupt and had to sell or shut down their operations. In comparative perspective with the co-operative banks, what were the reasons for this failure? First of all, consumer co-operatives could not participate in a democratisation movement as influential and united as the agricultural movement. Second, retail trade organisations proposed far more challenging democratisation alternatives than savings and commercial banks, as the much earlier introduction of self-service and an active price policy towards retail customers proves. Nevertheless, the Dutch consumer co-operatives for a large part had themselves to blame: especially their paternalistic and outmoded attitude in face of growing income equality and general welfare caused their failure. For instance, consumer co-operative leaders for many years condemned the concept of self-service; they argued that self-service would tempt consumers to buy more than strictly needed, causing them to fall prey to consumerism. Yet, this criticism was futile in view of the retailer Albert Heyn's overwhelming success with self-service stores in the Netherlands.

Leaders of the Dutch Co-op movement also declared that it would be fundamentally unjust to copy commercial supermarkets' active price policy in the mid-1960's. When producers like Van Nelle, Nestle, Douwe Egberts, Nutricia and Heineken decided to discontinue the price regulation mechanisms in force since 1928, the Dutch consumer co-operatives did not follow suit. They argued that since important price discounts on a limited amount of products would result in rising prices for other products, customers would be deceived by "a suggestion of cheapness"<sup>1187</sup>. Despite the changing competitive tides, co-op leaders persisted in labeling profit-making practices "dirty", with all the ensuing problems. Indeed, it would take until 1969 for concepts like marketing and profit-making to be accepted in consumer co-operative circles. Other problems of Dutch co-operatives were "*amateuristic* leadership", the loss of grassroots idealism and commitment amongst co-operative members, the rigid dividend policy, a lack of organisation at a European level, and a deficient "democratic" decision-making structure. The leaders of consumer co-operatives mostly were social-democratic PvdA or VARA<sup>1188</sup> incumbents rather than retail trade professionals. This prompted the press to characterise the Dutch Co-ops as a hobby club (Haagsche Courant, November 5<sup>th</sup> 1969). Members, meanwhile, while often remaining passively affiliated, more and more were "lured" by the "deceptive" marketing tricks of retail traders to buy from their shops. The slogan "not for profit, but for the family" that had made the modest success of Dutch consumer co-operatives in earlier decades, was starting to turn against them (Oosterhuis, 2000 :161-183).

Another element contributing to the early demise of Dutch consumer co-operatives, was their dividend policy. For fiscal and competitive reasons many consumer co-operatives maintained a "guaranteed dividend" policy, a euphemism for the label "fixed discount". This policy proved to be hugely detrimental in the 1960's and 1970's, when consumer co-operatives were not making significant profits anymore, and the dividend policy precluded consumer co-ops to reinvest their limited profits in new competitive retail techniques. For fear of member desertion, consumer co-operatives' leaders refused to bring to an end the dividend policy, even when by the mid-1960s they were making more losses than profits. Also, while many retail traders and wholesale producers started organizing on

a European or even international level, it took too long for co-operative production to be initiated at a European level. Co-operative producers remained trapped in a logic of consumer co-operatives satisfying primary necessities of life, rather than what the consumer in the meantime had become interested in. A deficient production capacity and lack of flexibility was the result. Finally, distrust had crept in the relation between the mother co-operative Co-op Netherlands and the directors of its affiliates. During many years Co-op Netherlands had acted as the banker, accountant and advisor of consumer co-operatives. While these functions were not statutory, they informally had gained a compulsory status. Yet, when consumer co-operatives in the 1960's and 1970's were facing a looming crisis, the discrepancy between the juridical and the actual role of Co-op Netherlands prevented it from realigning the whole organisation of consumer co-operation. There were some contacts between, on the one hand, the local, regional, and central agricultural cooperatives, and, on the other hand, the Dutch consumer co-operatives. Yet, these contacts were purely commercial and transaction-based; there existed no organisational links between both co-operative sectors (Lockhart, 1967: 144).

### **11. English Consumer Co-operatives**

English Co-operative societies first gained legal protection under the Friendly Societies Act of 1834 which authorised the registration of societies for "any other purpose [ than those specified] which is not illegal" (Gosden, 1961: 9). With the Industrial and Provident Societies Act of 1852 , certain privileges and certain limitations were set on co-operative practice. While Co-operative funds were now protected against fraud, societies were forbidden to hold land or to engage in banking, mining, or wholesaling. The Act was amended in 1855, so as to make land-owning legitimate; expenditure on education, however, was disallowed. The right to establish a wholesale society and enjoy limited liability, finally, was granted in 1862 (cfr. Cole, 1944: 114-126). An Act of 1862 further conferred incorporation on societies registered under the I&P Act and limited the liability of their members.

The third co-operative movement – after the flour and mill societies and the Owenite Co-operatives – found its origin and inspiration in the so-called Rochdale Pioneers – a small core of Owenite activists, chartists and handloom weavers. These founded the famous Rochdale Society of Equitable Pioneers in 1844 . As demonstrated by Bonner (1970), the Pioneers should not be pictured as half-starved operatives driven by the desperation of hunger. Most of the Pioneers were comparatively well-paid, skilled artisans, some in business on their own account, many of them regarded as part of the labour aristocracy. According to the 1844 statutes of the Rochdale Pioneers, the purpose of the society was "to form arrangements for the pecuniary benefit, and improvement of the social and domestic condition of its members, by raising a sufficient amount of capital in shares of one pound each, to bring into operation the following plans and arrangements." In the very long run, the purpose was to "proceed to arrange the powers of production, distribution, education and government" in the so-called Co-operative Commonwealth.

Stores were run "democratically" – members had the same voting rights regardless of the number of shares held. Finally, the most famous specification concerned the so-called dividend or "divi" : a portion of the Society's operating surplus was to be distributed to members on the basis of business done . Though the principles of "one member, one vote" and "religious and political neutrality" were not mentioned in the

Pioneers' bylaws, it is generally accepted these were accepted principles from the outset. With regards to the notions of religious and political neutrality, it is interesting to note that, on the one hand, the upper floors of the Rochdale warehouse held a chapel for Dissenters, and, on the other hand, the Pioneers were all in favour of liberal radicalism.

The ambitions of the Rochdale Pioneers did not stop at the setting up of a store; their purposes were not solely financial, but aimed at general improvement of the condition and status of members. The Pioneers first wanted to open a store, accumulate share capital and surpluses of members. With these funds, co-operative housing would be undertaken. Subsequently, co-operative production would provide employment to the members; products from this employment would then be marketed through the society's stores. Finally, all these endeavours would ensue in a self-supporting co-operative community. Co-operative education would be essential to achieve this; so, the 1854 statutes stipulated that 2.5 percent of Rochdale's annual surplus before distribution was to be put in "a separate and distinct fund...for the intellectual improvement of the members". Education and recreation were arranged by elected educational committees, which regularly held delegate meetings throughout the country.

While the "capitalist" trusts from the turn of the century were organising themselves on an international scale, and thus escaped national public scrutiny and control, the Co-operative movement still had to create its own international co-operative system of distribution and supply. Because the capitalist trusts, as the international City associations were virtually untouchable, the Co-op movement was increasingly being stigmatised as the intruder by individual shopkeepers and private traders, not the capitalist trusts. As a leading co-operator claimed: "they reserved their animosity to attack co-operative societies which did not undersell them, when they ought to have been battling against the soulless and devouring trusts" (Mercer, 1936: 111). As early as 1906, some Co-operators urged the fusion of all local societies into one gigantic National Co-operative Societies to counter the threat, with no avail. Even though the Co-operative Congress in 1920 resolved that "the time is now ripe for the Co-operative Movement to bring itself into closer unity by organisation of its forces...into one National Society", the tendency that societies valued local autonomy more than national unity remained.

**Table a: Membership of Retail Societies affiliated to the English Co-operative Wholesale Society (CWS)**

<b>Year</b>	<b>Members</b>
<b>1901</b>	1,800,000
<b>1914</b>	3,054,000
<b>1919</b>	4,131,000
<b>1940</b>	8,716,000
<b>1955</b>	13,000,000

By 1920 there were 1,379 distributive stores in Britain with over 4.5 million members (see table a. The annual sales of the English CWS that year was over £ 105 million, making it one of the largest enterprises of its kind in the world<sup>1189</sup>. Immediately before and after WWII, the Co-op movement was "at the peak of its development (Birchall, 1994 :136). The Co-op registered 28 percent of the population for rationing and

sold 23 percent of grocery sales in 1951 (see table b). From an innovation point of view, the Co-ops pioneered self-service stores. In 1942, a first self-service shop was opened by the London Co-operative Society. By 1950, 90% of all the self-service stores in the UK were operated by co-operatives. Yet, though the Co-op long continued to dominate the establishment of self-service stores – until 1960, the Co-op operated almost 50 per cent of the self-service stores in Britain – it was the rapidly growing, regionally based multiple retailers which established supermarket retailing within Britain. Supermarket retailing, incorporating self-service operations in large surface areas, required enormous capital investments unavailable to decentralised Co-ops and small independents (Morelli, 1998: 49-50).

As late as 1950 only 34 of the 145 multiple firms operating in Great Britain were established as public companies. By default of political success, the Co-operative movement's distinctiveness increasingly hinged on the "divi". Indeed, the dividend symbolized the purposes and practices of a lot of affiliated members. As testified by the daughter of an early member: "I thank the day I became a co-operator...[I am] thankful that I have my 'divi' to draw at the quarters' end – it pays for coal...The advice of my mother, a staunch co-operator, who died at the age of ninety-one, was 'keep true to the store and the store will keep true to you'"<sup>190</sup>. A drawback of this increasing reliance on the dividend, however, was that Co-operative societies tried to distinguish themselves by not lowering the dividend "patronage refunds" paid out, even in times of declining business. At the turn of the twentieth century 73 percent of retail co-operatives were repaying two shillings or more per pound sterling in patronage refund, that is more than 10 percent. What is more, a significant percentage of co-operatives paid 20 to 25 percent refunds (four to five shillings on the pound). More and more co-operatives paid higher and higher refunds as time went on. This situation was checked during certain periods by the burden of taxation. Still, to compensate for the increasing burden of dividends, more and more local societies started charging higher prices, which left them vulnerable to cost-cutting competitors. On the longer term, the emphasis on high dividends impeded the development of sufficient financial reserves for investment in new business opportunities (cf. Fairbairn, 1994: 16). As a response to the adoption of trading stamps by other food retailers, the consumer co-ops introduced dividend stamps in 1965 as an alternative to the traditional methods of paying the 'divi'. The CWS even launched a national Dividend Stamp scheme in 1969.

An important link between concentration and cartelisation of English companies was provided by so-called Resale Price Maintenance (RPM), i.e. the practice to fix the price at which retailers may sell through loyalty rebates or withholding supplies from price-cutters through stop-lists. RPM practices increased dramatically in the interwar-years, and steadily grew to a peak in the mid-1950s<sup>191</sup>. RPM was especially significant with regards to branded, nationally advertised consumer goods – foods and durables (Mercer, 1995: 18-19), i.e. the core business of the Co-ops<sup>192</sup>. In the mid-1950s, Resale Price Maintenance (RPM) practices were at their peak: it covered about 44 per cent of consumer expenditure on goods. By the time the Resale Prices Act was passed in 1964, the incidence of RPM had dropped to about 33 per cent of consumer expenditure, as a result of its collapse on grocery products, on other consumable goods sold increasingly through the fast-growing self-service outlets and on tyres (Pickering, 1974, Oxford Economic Papers: 120). Paradoxically, despite the Co-operative movement's initial resistance against cartellisation based on RPM practices, the gradual abolishment of these practices after

WWII laid a heavier burden on Co-ops than on its capitalist counterparts. Lacking the level and depth of integration and cartellisation of these latter firms, and historically dependent on paying out high dividends to prove their distinctiveness, Co-ops' price level often was above-par with its competitors. By default of the protection of RPM, charging lower prices meant that the dividend would lay an even heavier burden on Co-ops capacity to raise finances, increase the scale of its operations and become more efficient. In fact, as a result of higher prices, higher overheads, lower profit margins and increased competition after WWII, many local co-ops found it increasingly difficult to keep dividend. So, a survey carried out in 1952 found that only 380 societies, out of the 942 who responded, were paying the normal rate of dividend on market prices<sup>1193</sup>. As many Co-operative societies were trying to maintain previous high rates, they adopted tactics that had a detrimental effect both on their trade and the public image of unity and purposiveness of the co-operative difference. So, some neighbouring co-operative societies tried to outcompete each other based on dividend levels. In 1954 the Co-operative Union advised that "in keeping with basic co-operative principle retail societies should pay the same rate of dividend on all the purchases of members irrespective of the surplus made on the sale of particular articles and irrespective also of the profitability or otherwise of particular departments". Furthermore, "dividend must be allowed to find its own level"; societies were advised "not to artificially keep rates up or retain their previous rates"<sup>1194</sup>.

**Table b: Economic performance Retail Co-ops affiliated to the English CWS to other retail trading organisations in terms of marketshare in the grocery provision trade**

*(Source: Jefferys, 1954: 29; Morelli, 1998: 47)*

<b>Year</b>	<b>Co-ops</b>	<b>Multiples</b>	<b>Independent outlets</b>
<b>1900</b>	6.0-7.0	3.0-4.5	86.5-90.0
<b>1910</b>	7.0-8.0	6.0-7.5	81.5-85.5
<b>1920</b>	7.5-9.0	7.0-10.0	77.0-82.5
<b>1930</b>	8.5-10.0	12.0-14.0	76.0
<b>1939</b>	10.0-11.5	18.0-19.5	63.5-67.5
<b>1950</b>	23.23	19.95	56.81
<b>1961</b>	20.76	26.9	52.33
<b>1966</b>	16.70	36.33	46.97
<b>1971</b>	13.23	44.31	42.46

As the Co-operative movement's decline became particularly obvious in the 1950s, four major inquiries were held into its condition between 1953 and 1964, (Birchall, 1994: 147-150): two into the CWS, one into the movement as a whole and one into relationships between the wholesalers and the Co-operative Union. The common problem identified in all enquiries was that authority in the movement was decentralised to around a thousand retail societies whose members were anxious to preserve local autonomy. In fact, the movement had "failed to co-ordinate the enormous buying power of the retail and wholesale sides and wield it as a national marketing and sales promotion force. Fragmentation and local autonomy prevailed in almost every field of Co-operative trading a time when private enterprise was marshalling its forces into specialised, nationally

controlled units” (Richardson, 1977: 199). The most authoritative inquiry was the Co-operative Independent Commission Report set up in 1955 with Hugh Gaitskell – deputy leader and later leader of the Labour Party – in the chair, and a committee of authoritative Co-operative and retailing experts. Four main problems were identified in this Report. First, there were too many grocery shops in the north, and not enough in the south and west. In the Greater London area a mere 31 non-food goods shops had to face the competition of 688 multiples’ outlets. Second, while food shops had been distributed quite effectively, department stores had been founded in old working-class areas which had now become unfashionable. Non-food shops were worst situated. Generally speaking, the Co-op was weakest in the larger towns, strongest in the country and small towns. Third, the quality of the shops was very variable, though generally below-par compared to multiples....Fourth, the Co-op image was in need of updating to appeal to a younger generation: goods sold were old-fashioned, particularly in women’s and children’s wear. In addition, *the Co-op inhibition towards giving credit* was seriously restricting the trade in furniture and electrical goods; customers were turning to other firms who offered hire purchase.

The report claimed that the underlying cause of these deficiencies was the quality of management. In this regard, it became painfully visible how the Co-op’s attitude vis a vis education was out-of-date. The Co-op’s tradition was to recruit its staff exclusively from school-leavers with a minimum of schooling. This staff subsequently had to work their way up the ranks of the local Society. An advantage was that this staff were content with much lower salaries than their for-profit equivalents, in view of the security of lifetime employment, a high status and sense of community in the working-class neighbourhoods. Until WWII the Co-operative movement had benefited from an education system built on the premises of class; many talented working-class children were prevented from gaining a decent education in this system. Yet, with the opening up of access to the grammar schools after WWII, the best working-class students were beginning to stay on at school and go to college. These students, who most probably would have made the best managers according to the professional standards of their time, were now bypassing the Co-op. This problem was compounded by the frequent interference of Board of Directors “amateurs” in daily management. Another point made by the Gaitskell Commission is that the Co-operative movement should raise its sights and realise that it is no longer appealing to “a working class which is barely above the subsistence line”. Indeed, as the *New Statesman* reported on the 10<sup>th</sup> of May, 1958, there was “some evidence that with full employment, a substantial part of the working-class has been ‘shopping up’ from the Co-op to the multiple stores”<sup>1195</sup>.

According to part of the press, the Gaitskell Commission had only uncovered part of the problem. So, a leading article in the *Times* read: “they do not...refer to the liability that the democratic management may be more interested in social and political aims than in shopkeeping”<sup>1196</sup>. And a reporter of the *Manchester Guardian* wrote: “The Co-operative movement has been slipping behind the times...Too many co-op shops wear an appearance of drab mediocrity; a general smartening up is needed, in line with contemporary taste...*there is a general lack of style*”(italics added).<sup>1197</sup> According to the *News Chronicle*, finally, “the Co-operative movement...needs livening up and modernising...In some areas the Co-ops have lost trade by charging too much in order to maintain or increase the dividend...’They sell at market prices and treat the dividend as a residual’”<sup>1198</sup>.

In the mean time, it became clear that Co-operative customers were more attracted by the sales of fashion and new consumer goods in private multiples than by the savings aspect of the dividend. In addition, the dividend was also becoming increasingly costly to administer, especially as the rates reduced. The emergence in the 1960s of trading stamps, symbolised the end of the dividend era. When in October 1963 Fine Fare and Tesco started with these stamps, leaders of the Co-operative Union were quick to utter their total antagonism for this form of trade, believing that it was against the best interests of the consumer. They argued that the emphasis on the “something for nothing approach is contrary to the philosophy of the movement”<sup>1199</sup>. Rejecting trading stamps as commercial ideas that “like so many other gimmicks, ... emerged in the United States of America”, the centre of moral decay, Co-operative leaders once again proved to what extent they were out of touch with modern value-rationalities<sup>1200</sup>.

In March 1963 the Co-operative News had a banner headline, ‘C.W.S. says no to stamp trade’; the Co-op Union condemned the several individual co-operative societies who had signed up with various private stamp firms in the hope of promised increase in turnover. Instead, the Union advised that ‘dividend was best’ as it provided superior purchasing power compared to the true cost of the ‘free’ gifts obtained by collecting stamps. societies were urged not to be drawn into stamps trading and told that they should do more to explain what dividend really was<sup>1201</sup>. Unfortunately, the co-op’s appeal to the public, by sensible reasoning, failed to convince that dividend was best and the movement concluded that despite the stigma of unethical trading, trading stamps were here to stay. In 1968 the Co-operative Wholesale Society therefore launched the co-operative ‘dividend stamp’. The publicity went to great lengths to stress the dividend aspect of the stamp. The message was that the dividend stamp should not be confused with stamp trading as it was translating a basic co-operative benefit into a modern idiom<sup>1202</sup>.

Co-ops’ entry into the newly emerging trading stamp arena was delayed by a reluctance to modernise their own retailing methods, despite the Co-ops’ failure to sustain capital reserves for expansion and the increasing stigma of being old fashioned. As only the very poorest of the working class kept frequenting the Co-op shops, the Co-ops finally were urged into action. Instead of coming up with their own innovations, in the end they were forced to emulate those of their commercial counterparts. The move to the dividend stamp had the effect of rearranging the finances of the movement: as the incentive to become a member disappeared, most stamp books were being exchanged for goods rather than deposited in share accounts.

The final demise of the English consumer co-operative movement as a credible national champion was symbolised by the Consumers’ Association<sup>1203</sup> emergence in the 1960s. As a non-profit organisation, the latter has taken over the role of “consumer interest champion” and self appointed watchdog on behalf of the English public.

Things did not improve in the 1980s and 1990s. It is generally known that the Thatcher government was not pro Co-operatives, much to the contrary. So, though the emergence of new generation worker co-operatives – such as Meriden – in the 1970s in the wake of growing unconventional protest of workers had culminated in the passing of the 1976 Industrial Common Ownership Act<sup>1204</sup>, the ascendancy of the Thatcher government, however, meant that this initiative would quickly be starved of financial support. The voice of the Co-operative Party and Co-operative Union became marginalised amongst civil servants. Pauline Green, secretary-general of the Co-operative Union, described the events of the last decades as follows: “What happened over the last twenty years in Britain

is that the Conservative governments under Margaret Thatcher and John Major have destroyed all the national Co-operative organisations, for instance the Co-operative Development Agency". In the 1980s and 1990s, "if you weren't a PLC in the UK you were not a proper company". But the decline of the Consumer Co-op movement was not due to political reasons alone. Since WWII, the English Consumer Co-op movement has not been strong enough to affect markets on behalf of customer, be it with regards to prices or quality. Gradually, the Consumer Co-ops lost more and more marketshare. Not surprisingly, in the 1970s, increased competition, a lack of business integration between local societies, and a general climate of member disinterest, led to the definitive demise of the Co-operative dividend. Local Co-ops now openly copied the retail strategies of their competitors, for instance through offering low prices or discounts to all customers (Birchall, 2001: 72). Still, the copycat behaviour of Co-ops did not spell growth, as they were still sending mixed messages and, overall, were perceived as old-fashioned. The only solution found by Co-ops was to keep open small, lossmaking shops to mitigate these effects (Birchall, 2001: 82-83). The recent turn towards "ethical" branding, for its part, has changed this perception only to a limited extent.

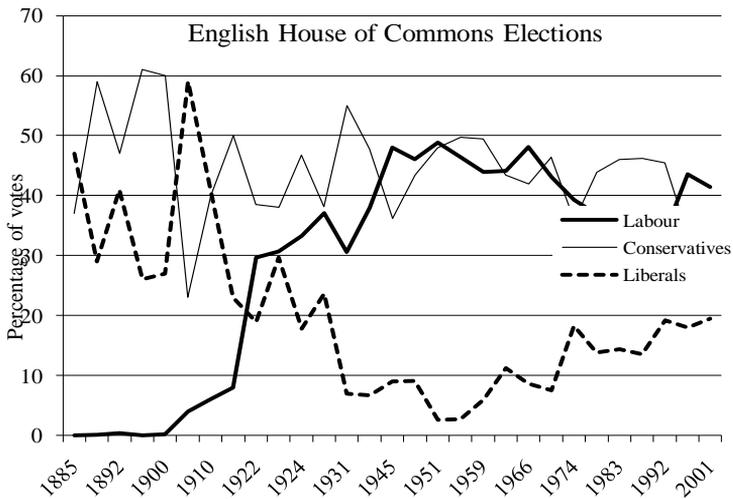
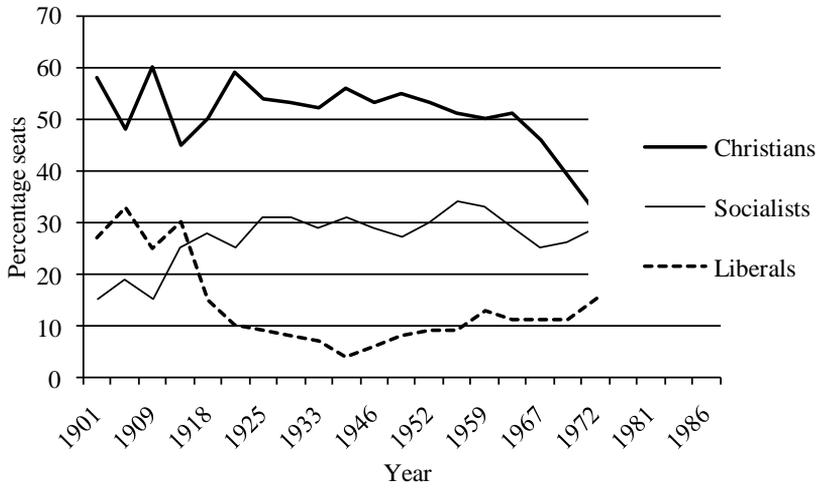
The Co-operative Bank has had some success with this strategy, but only because it had initiated larger market-conform changes from the early 1970s onwards. With the disappearance in the 1960s of grand Commonwealth visions, the idea had been pondered of transforming the CWS Bank into a standalone for-profit subsidiary, so as to increase its credibility in established popular opinion.<sup>1205</sup> The idea was finally transformed in practice in 1972, with the formation of the Co-operative Bank PLC. As a sign of recognition of this move, the Co-operative Bank in 1975 gained the membership of the London Bankers' Clearing House, as the first bank in almost 40 years.

The Co-operative Bank at the end of the 1970s further distanced itself from the political failure of the Co-operative Party and Union, by affirming its "apolitical", non party-affiliated character. The new strategy of the Co-operative Bank is to influence State by having a greater impact on popular opinion, i.e. the creation of popular opinion. This, the Co-operative Bank endeavours to achieve by launching a new project of « democratic » or « people's capitalism », which combines a peculiar mixture of liberal market-orientation and nonconformist ethics. Tellingly, the "insolent" customer focus of the Co-operative Bank on the higher middle ranks of English society is now being propagated as a best practice for the other Co-operative entities, despite the Co-operative Bank lacking any traditional concept of membership. In its defense, the Co-operative Bank declares that, instead of a passive membership, it is preferable to attract customers able and willing to participate in consultation rounds regarding the appropriateness of pursued policies. All in all, by focusing on a small niche of retail banking, the Co-operative Bank has managed to increase its marketshare of personal deposits in England from 2 percent in 1970 to 5 percent in 2003.

## Appendix B : Parliamentary politics

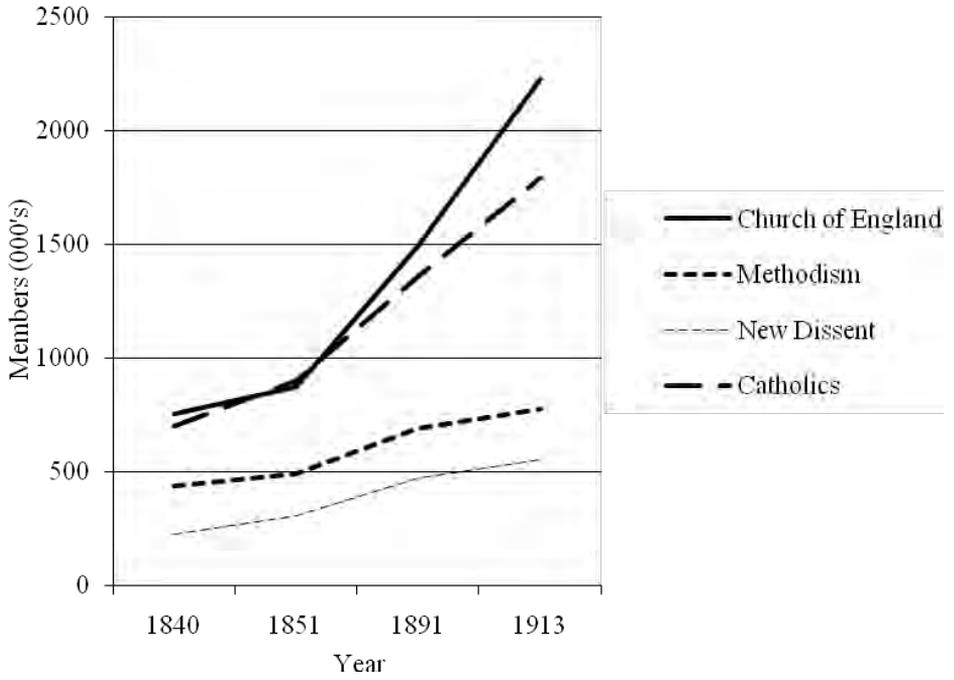
### Composition Dutch Parliament

Source : CBS, *Negentig Jaar statistiek in tijdsreeksen 1899-1989* : pages 46-47

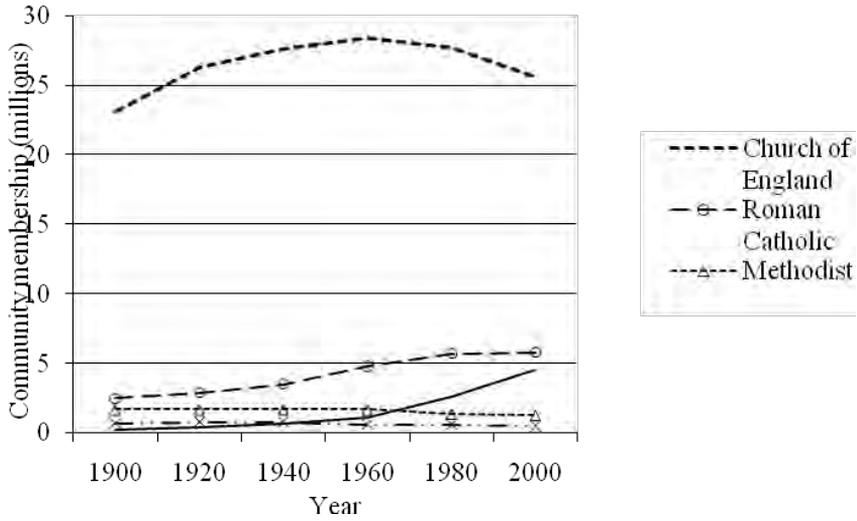


## Appendix C: Religious Affiliation

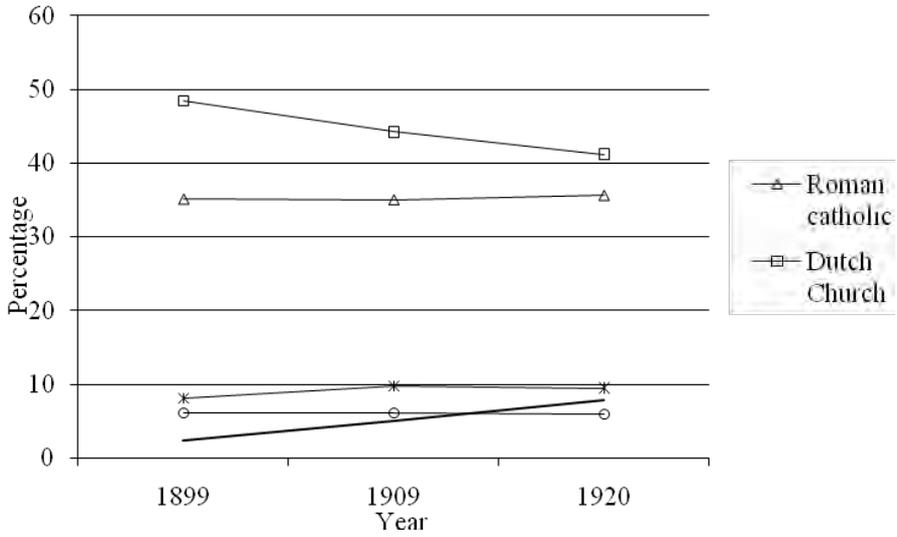
Active religious membership (England)

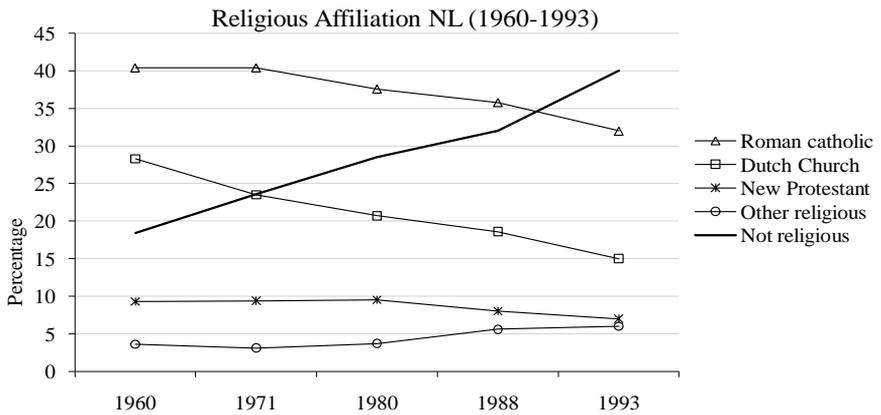
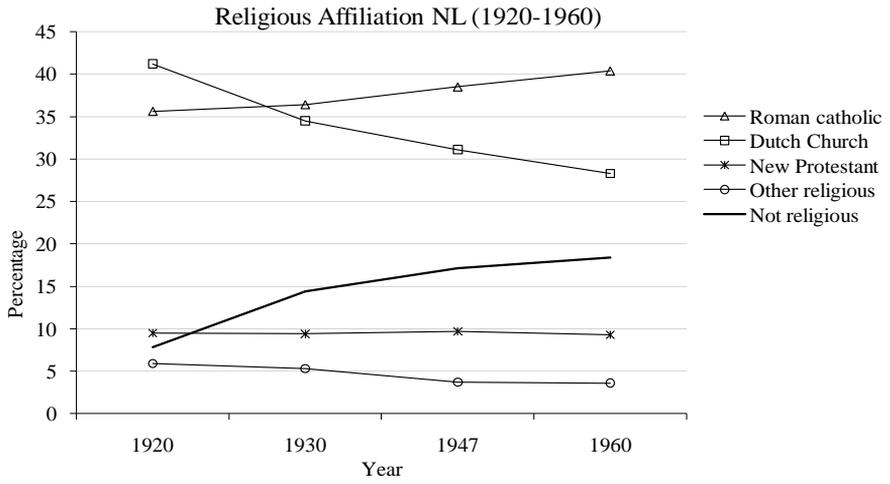


### Formal religious affiliation (UK)



### Religious affiliation NL (1899-1920)





**Table C.1: Dutch schools cater to what kind of religious affiliations (of parents) in 2000**

(Source : Dijkstra, Driessen & Veenstra, 2001)

<i>Religion Parents:</i>	None	Cath	Prot	Islamic	Other	Total
<i>Religion Schools:</i>						
Public	<b>60</b>	17	14	7	3	2332
Catholic	17	<b>71</b>	6	4	1	3317
Protestant	23	11	<b>59</b>	7	2	1967
Protestant (orth)	0	0	<b>89</b>	0	11	228
Islamic	0	0	0	<b>99</b>	1	73
Private non-religious	36	38	12	11	4	343
						N=8260

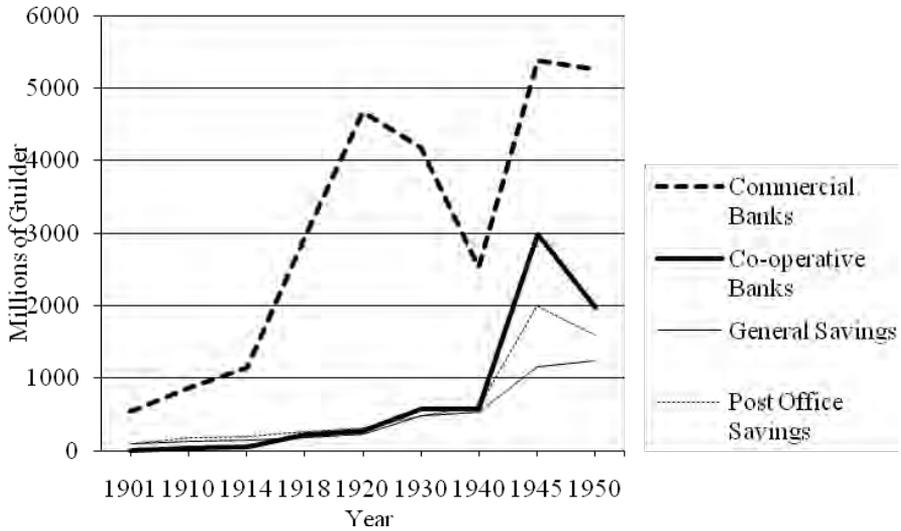
**Table C.2: Relation religious affiliation Dutch parents and choice of schools (2000)**

(Source : Dijkstra, Driessen & Veenstra, 2001)

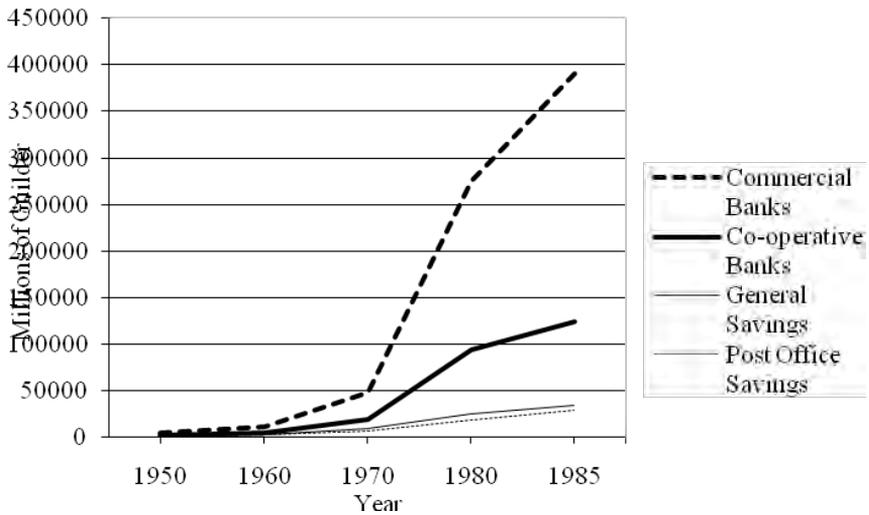
<i>Religion Parents:</i>	None	Cath	Prot	Islamic	Other	
<i>Religion Schools:</i>						
Public	<b>55</b>	13	16	30	38	
Catholic	23	<b>76</b>	11	26	19	
Protestant	18	7	<b>60</b>	24	19	
Protestant (orth)	0	0	<b>11</b>	0	16	
Islamic	0	0	0	<b>13</b>	1	
Private non-religious	5	4	2	7	8	
Total	2549	3096	1905	550	160	N=8260

## Appendix D: Comparative Total Assets

Total Assets NL (1901-1950)



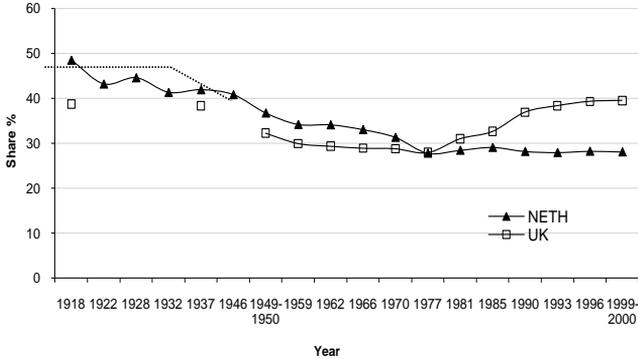
Total Assets NL (1950-1985)



## Appendix E: Income inequality comparison (NL – UK)

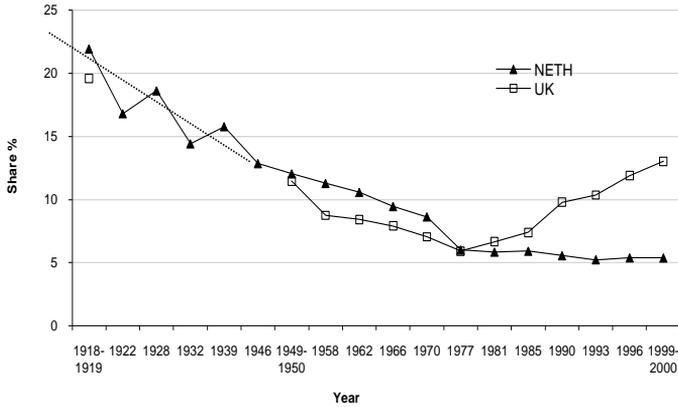
**Figure E.1: Comparison Total Gross Income Share of Top 10% in Neth and UK**

(Source: Tables 2NL and 2UK in Atkinson and Salverda, 2005: 897-900)



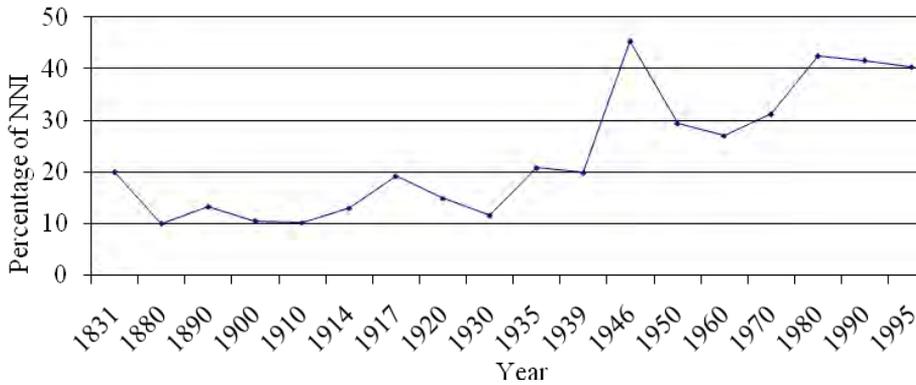
**Figure E.2: Comparison Total Gross Income Share of Top 1% in Neth and UK**

(Source: Table 2NL and 2UK in Atkinson and Salverda, 2005: 897-900)



## Appendix F : Government Expenditure

Government expenditure NL  
(as % Net National Income)



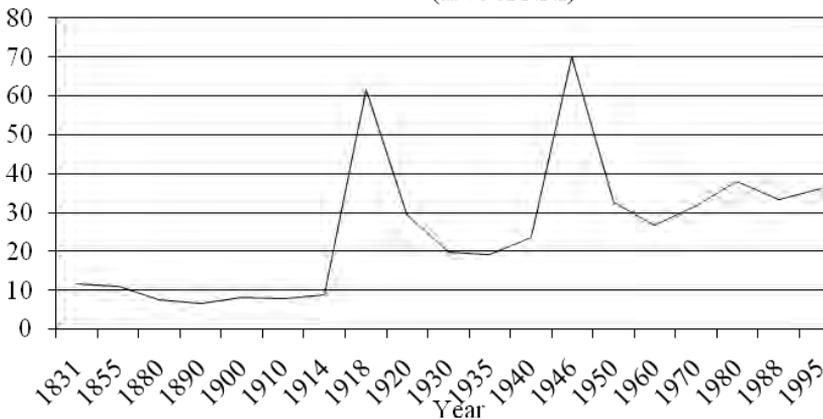
Source: CBS, 2001 Tweehonderd jaar statistiek in tijdreeksen  
(figures in million guilder)

NA = figure not available

\* Government spending figures exclusive repayment of government loans

\*\*NNI at market prices

Government expenditure UK  
(as % of NNI)



Sources : Mitchell, B.R., 1962. *Abstract of British Historical Statistics*.

Mitchell, B.R. 1971. *Second Abstract of British Historical Statistics*.

Mitchell, B.R. 1988. *British Historical Statistics*

Mitchell, B.R. 1992. *International Historical Statistics Europe. 1750-1988*.

Booth, 2001. *The British Economy in the Twentieth century*

## Appendix G: Labour productivity

Table G.1: Comparison labour productivity NL and UK manufacturing (1913-1938)  
(*gross value added per person hour, UK=100*)

	<b>1913</b>	<b>1921</b>	<b>1929</b>	<b>1938</b>
<b>Netherlands</b>	78	104	91	89
<b>United Kingdom</b>	100	100	100	100

*(Source: Van Ark and De Jong, 1996: 32, Table 10)*

Table G.2: Productivity levels in Dutch, German, US and UK manufacturing (1950-88)  
(*gross value added per person hour, UK=100*)

	<b>1950</b>	<b>1965</b>	<b>1973</b>	<b>1979</b>	<b>1988</b>
<b>Netherlands</b>	75	100	135	169	144
<b>Germany</b>	74	121	133	162	137
<b>United States</b>	247	254	220	226	207
<b>United Kingdom</b>	100	100	100	100	100

*(Source: Van Ark, 1990a: 345, Table 1)*

## Appendix H: Opportunity structure of Politics

**Table H.1: Opportunity structure of English Politics**

<b>Years</b>	<i>Events</i>
1847	- Abolition Corn Laws
1860s	- Substantial transformation Civil Service starts; a public system of primary education is formed; the public schools are being infused with gentlemanly purposes and stripped of any remaining working class stigma
1875-...	- Despite growing government intervention, laissez-faire policy remains predominant
1897	- In 1897 a Department of Agriculture is added to the Ministry of Home Affairs. This Department is moved to the Ministry of Water Management, Trade and Industry in 1901.
1900-1905	- static trade union membership - Labour movement is weakened by 1901 Taff Vale decision, which limits union powers to conduct strikes
1909-1910	Introduction of super-tax in Lloyd George's Budget
1914-1918	- Trade Union membership soars in parallel with labourers grievances; the labour market tightens, inflation accelerates, higher profits in the munitions industry and rising rents for workers in the main engineering districts - Growth of national collective bargaining accelerates as the membership of employers' organisations in turn increases - Shopfloor workgroups gain great power in face of full employment and the need for production at any cost
1917-1918	- Employers are concerned about the extensions of the state apparatus, trade union power and taxation during WWI - Churchill states four days before the end of WWI that government price restrictions and industry control should be abandoned in order to "liberate the forces of industrial enterprise, to release the controls which have been found galling, to divest ourselves of responsibilities which the state has only accepted in this perilous emergency, and from which...it had far better kept itself clear" <sup>1206</sup>
1918-1920	- Local authorities are responsible for financing most of the new houses built
1919	- The Profiteering Act of 1919 makes the earning of "a profit which is, in view of all the circumstances, unreasonable" a punishable offence - Continuing full employment and substantial inflation help unions to achieve a sharp reduction in the normal working week without reduction of pay

1920	The 1920 price and earning collapse and the rise of unemployment weaken trade union support: membership and density collapses
1921	Many Conservatives adopt the view that action against profiteering would do private enterprise more harm than good; the Profiteering Act is allowed to lapse; the protests of the Standing Committee on Trusts fall on deaf ears with the ministers at the Board of Trade; the Balfour Committee which was appointed to enquire into “the present extent of large-scale production, its possibilities and limitations”, concludes that “the case for immediate legislation for the restraint of such abuses as may result from combinations cannot be said to be an urgent one” <sup>1207</sup>
1920s-1930	As the Labour Party seeks to present itself as a potential party of government, it increasingly employs a strategy of respectability and compromise in order <u>not to alienate itself from middle-class voters</u> (this leads to the marginalisation of for instance the ILP)
1926	Great Strike ending with coal miners being starved into submission
1931	- the Labour government falls - in face of the world economic crisis the golden standard is abandoned
1932	“Great policy” of protection is installed, based on indirect tariffs rather than “undue taxation to private enterprise” <sup>1208</sup>
1935	The 1925 government budget provides a tax concession to companies engaging in voluntary schemes to restrict capacity
1939-	Banking becomes the subject of official controls from the spring of 1939. Throughout the war, banks are required to finance government expenditure. Until 1979, commercial banks’ business is to a certain extent constrained by credit controls (involving lending priorities for manufacturing investment and the support of exports)
Post-WWII	Voluntarism of industry vis a vis purposes of full employment is accepted by the state
1950s	“sound finance”, i.e. a balanced budget, the maintenance of London’s role as a centre for world banking and the stability of the sterling currency, is reintroduced and reconciled with social democratic policies: the result is a “stop-go” policy <sup>1209</sup>
1956	The first effective legislation against restrictive practices, the Restrictive Trade Practices Act <sup>1210</sup> (RTPA) comes into being; an associated RTPA Court is established to judge whether or not agreements are against the “public interest”
1958	The wartime regime of bank control is partially lifted; as a result of the stop-go policy clearing banks’ activities are free from government direction only in the periods summer 1958 – July 1961 and October 1962 – December 1964.
1964	The Resale Prices Act prevents the use of individual resale price agreements
1970s	Labour Party <sup>1211</sup> as committed to home ownership as Conservatives; role of Building Societies is described as unique <sup>1212</sup>
1979-1982	Conservative government deflects criticism on its policies – especially

	high unemployment – by blaming the unions and previous economic policies
1979	Ascendancy of neo-liberalism: monetary lever is interest rate and not fiscal policy; low inflation is as important as low unemployment; monetary policy in accordance with rule not discretion

**Table H.2: Opportunity structure of Dutch Politics**

<b>Years</b>	<b><i>Events</i></b>
1863	End of system of slavery in Dutch colonies, more than thirty years after British
1869	Up to the year 1869 labour unions are prohibited in the Netherlands
1915-1920	<ul style="list-style-type: none"> <li>- Government subsidises the union-initiated arrangements for unemployment insurance</li> <li>- During WWI prices and profits soar, which allows labour unions to negotiate important pay rises</li> <li>- As a result, the status of unions rises fast, as does their membership</li> </ul>
1917	After years of tedious negotiation, a package deal known as the Pacification of 1917 is concluded. This deal entailed financial equality for christian-democratic schools, and universal (manhood) suffrage requested by social democrats
1918	<ul style="list-style-type: none"> <li>- After the declaration of the socialist leader Troelstra, the Dutch government mobilises the army</li> <li>- Troelstra's declaration also mobilises the confessional trade unions</li> </ul> <p>- The result of the first elections under the proportional representation system are disappointing for the socialists: the SDAP obtains only 22% of the votes, which means that can easily be excluded from the cabinet formation of 1918.</p>
1919	<ul style="list-style-type: none"> <li>- Despite the massive condemnation of the socialist “coup”, the revolutionary intermezzo leads to important social reforms. So, after WWI, a separate ministry of Social Affairs is established led by the progressive catholic Aalberse.</li> <li>- As a <u>first formal-legal instance of corporatism</u> in the Netherlands, the Minister of Social Affairs in 1919 installs a “High Council of Labour” in which some 40 members from employers, employees, and government (led by the minister) officially meet and discuss social affairs.</li> </ul>
1920s	The Social-Democratic Labour Party (SDAP) publishes a report on socialisation of the means of production and the abolition of private property

1927	After long negotiations between parliament, political parties and the High Council of Labour, employers and employee organisations, the Law on Collective Labour Agreements is passed: collective labour agreements are now legally recognised
1930	In face of an international economic depression and worsening cost/benefit ratios in the Dutch agricultural sector, Van den Heuvel, chairman of the Protestant farmer union (CBTB) and Member of Parliament for the Protestant Party, asks the government to intervene and support the prices of sugarbeets, potatoes and wheats. The minister responds by installing a Committee in charge of formulating policy proposals. The two Central Co-operative Banks form part of this committee <sup>1213</sup> .
1933	As the industrial sectors were not willing to establish voluntarily industrial councils, as proposed by the Catholics, a law on industrial councils (Bedrijfsraden) is passed in parliament, albeit with minimal effect on industrial practice.
1935	Based on the thoughts of the Socialist Professor Tinbergen – in turn influenced by Keynes – and President Roosevelt’s New Deal programme, the Socialist Party publishes the influential “Labour Plan” in which it declared that a precondition for socialisation is the ordering of economy, most notably through the planned development of production.
1936	The Dutch government finally abandons the golden standard
1937	The Minister of Social Affairs is adjudicated the right to approve collective labour agreements, or declare them invalid if deemed to be against the “public interest”
1940	Dutch industry is incorporated in the trade and industry “Woltersom” organisation imposed by the German occupiers.
1945	Neither employer nor employee unions want to create conflicts in this period of reconstruction: in a climate of social harmony, the <i>bipartite</i> Labour Foundation, a <u>private</u> organisation, is established to give neutral advice about appropriate wage levels. All employers and employees keep to the wage agreements initiated by the Labour Foundation for the years to come.
1946	Minister of agriculture Mansholt wants to reform the agricultural sector so as to restore the foodsupply; Mansholt is especially concerned with international market developments
1950	- The <i>tripartite</i> Social and Economic Council of the Netherlands (SER), a <i>public</i> organisation, is established to advise the Dutch government on national and international social and economic policy. The SER is financed by industry and is wholly independent from the government. It represents the interests of trade unions and industry, advising the government (upon request or at its own

	<p>initiative) on all major social and economic issues. A positive advise of the SER is always followed by government<sup>1214</sup>. The four purposes of the SER are: economic growth, productivity increase, balance of payments equilibrium and full employment</p> <ul style="list-style-type: none"> <li>- The law on Corporate Organisation comes into being, which provides sectoral organisations with the possibility to gain public self-regulatory authority and become financially independent through for instance the levying of taxes</li> </ul>
1954	<ul style="list-style-type: none"> <li>- The “<u>Landbouwschap</u>”, a public corporation for agricultural self-regulation, comes into being by royal decree.</li> <li>- Membership in the Landbouwschap is compulsory for all those engaged in agriculture, whether they belong to one of the six private agricultural unions or not.</li> <li>- As a body for the promotion of the general interests of farming business, the Landbouwschap has <u>autonomous legislative authority</u> with regard to <ul style="list-style-type: none"> <li>a) promotion of animal health, quality of agricultural produce</li> <li>b) regulation of production, storage and land cultivation <ul style="list-style-type: none"> <li>c) internal distribution</li> <li>d) rationalisation and normalisation</li> </ul> </li> <li>e) conditions of employment for agricultural workers</li> </ul> </li> <li>- the Landbouwschap is regarded by the Dutch government as the authoritative voice of Dutch organised agriculture, a voice moderate in tone; relation can be summed up as a “partnership”</li> </ul>
1960s	A first wave of professionalisation of parliamentary representation takes place <sup>1215</sup>
1959-1972	As the Dutch economy recovers from the war devastation and enormous natural gas reserves are found, government expenditure explodes
1970s	Parliament becomes a “workshop for professional politicians” <sup>1216</sup>
1973-1980	<ul style="list-style-type: none"> <li>i) the motto of Prime Minister Den Uyl’s cabinet (1973-1977) is “the spread of knowledge, income and power”</li> <li>ii) the State deficit explodes</li> <li>iii) central state planning by the Den Uyl cabinets cannot stop the declining tide, most notably in terms of employment figures</li> </ul>

1980s	<ul style="list-style-type: none"> <li>iv) European Union freezes price-support measures in order to stop inflation and control the production level</li> <li>- The purpose of “acceptable income distribution” to some extent is sidelined. <ul style="list-style-type: none"> <li>- Three new policy goals dominate the 1980s: <ul style="list-style-type: none"> <li>i) reduce the budget deficit</li> <li>ii) downsize the welfare sector</li> </ul> </li> <li>iii) revitalise the production capacity of the economy</li> </ul> </li> <li>- Two issues dominate the municipal reforms of the mid-1980s: <ul style="list-style-type: none"> <li>i) result-oriented financial management (the new “planning and control system”)</li> <li>ii) decentralising management responsibilities (the “concern-division” model<sup>1217</sup>)</li> </ul> </li> </ul>
1989-2001	<ul style="list-style-type: none"> <li>i) Minister of Finance - from 1994 Prime Minister - Kok substitutes a focus on good public/private “management” for the neo-liberal emphasis on economic privatisation and downsizing</li> <li>ii) the goals of “preservation of purchasing power” and “a more equivalent income distribution” are revalorised</li> <li>iii) local politics: in face of an historically low voters’ turnout and the access of extreme right parties to some city councils, a “search for the lost citizen” starts<sup>1218</sup></li> </ul>
2002	<ul style="list-style-type: none"> <li>- Economic recession and criticism by the New Right – in particular the political party LPF – with regards to the issues of security, healthcare and education usher in a period of “neo-liberal” austerity</li> <li>- Law-based state control of outputs and performances: halt to “permissiveness”, climate of “inspection and control”, call for strict compliance with rules and regulations</li> </ul>

## Appendix I: Opportunity structure of Civil Society

**Table I.1: Opportunity structure of English Civil society**

<b>Years</b>	<i>Events</i>
1780s	The attack on “Old Abuses” <sup>1219</sup> , and the desire to substitute it with economic reform takes off
1790s	The belief that labour is a commodity to be bought and sold at a free market price is accepted by most elites <sup>1220</sup>
1900-1905	<ul style="list-style-type: none"> <li>- static trade union membership</li> <li>- Labour movement is weakened by 1901 Taff Vale decision, which limits union powers to conduct strikes</li> <li>- many employers use the economic downturn to either express their anti-unionism or exploit the situation in their negotiations with the unions</li> </ul>
1910-1920	<ul style="list-style-type: none"> <li>- trade union membership trebles</li> <li>- two periods of serious industrial unrests</li> </ul>
1918	<ul style="list-style-type: none"> <li>- With the moral examples of the Russian revolution in 1917 and the German uprising of workers and soldiers in 1918, the chairman of the Socialist Party Troelstra fires up the already revolutionary mood amongst Dutch workers and soldiers: in november 1918 he declares in the Lower Chamber that the revolution would not halt at the frontiers of the Netherlands and that the socialists were ready to take over power in the country</li> <li>- After Troelstra’s declaration, everyone who is not socialist joins around the Queen in a massive anti-socialist demonstration on november the 18th of 1918.</li> </ul>
1921	<ul style="list-style-type: none"> <li>- While the Labour pressures were pushing public opinion towards action against profiteering and combinations until 1920, falling prices shift the political initiative back to preferences for laissez-faire and “anti-waste”; “trusts...are inevitable. They will continue, whatever obstacles we attempt to put in their path”<sup>1221</sup></li> </ul>
1920-1930	<ul style="list-style-type: none"> <li>- one period of serious “anti-profiteering” unrest</li> <li>- even a moderate suggestion that the government should sponsor the publication of monopolistic prices was characterised as a step on the “slippery slope of socialism”<sup>1222</sup> in the interwar period</li> </ul>
1931	<ul style="list-style-type: none"> <li>- Final demise of Free Trade; the belief in the “inevitability of monopoly” and “trusts” becomes generalised to even Labour leaders</li> </ul>
Post-WWII	<ul style="list-style-type: none"> <li>- main post-WWII purposes: full employment and the development of the welfare state</li> </ul>
1950s	<ul style="list-style-type: none"> <li>- emergence of the policy objective of “sound finance”</li> </ul>

	- the “Americanisation of English industry” – the use of mass production and sophisticated management techniques – becomes a hot issue
1979-1989	- Thatcherian variety of High Tory Liberalism: state intervention, bureaucracy and corporate tripartism are rejected; marketisation, economic “efficiency” and managerial rationality are praised; against macro-state and society and for a return to micro-communities and self-help - Consumers are encouraged to believe that the economy has entered a new era of prosperity
1990-1992	- Botched attempt to enter European ERM

**Table I.2: Opportunity structure of Dutch Civil society**

<b>Years</b>	<i>Events</i>
1850s	Growing impact of free labour ideology on Dutch MPs, translating itself in anti-slavery feelings with regards to the colonies and ideas of self-organisation (self-help) domestically
1880s	Feeling of emergency is growing in face of the threat of “food shortage”
1930s	Feeling of emergency is growing in face of the threat of “food shortage”
1935-	Social-democrats accept corporatism as a justified “preparatory phase” of socialization
Post-WWII	Labour unions reject strikes as a bargaining means
1950s	Catholics substitute the notion of “personalism” for the social-democratic and liberal pressures for respectively a “breakthrough” and the liberalisation of the corporatist system
1970s	The threat of “food shortage” has become obsolete; as material welfare is taken-for-granted, attention shifts to non-material aspects of well being: “democratisation” and “politicisation” forces call for the end of regentesque policy and the installment of pluralism, in which all interest groups have equal access to agenda-building and policy-making <sup>1223</sup> ;
1973	The summit of this period of polarisation and politicisation occurs when the 1973 cabinet Den Uyl proclaims its motto: the “equal distribution of knowledge, income and power”
1975-1980	In face of the unsuccessful cabinets Den Uyl, the aversion for State planning grows
1980	No-nonsense: neo-liberal self-help and retreat of the welfare State
1989-2001	Reinvention of the Regent policy tradition (“interactive decision-making”)
2002	The New Right in the Netherlands led by the university professor Fortuyn, launches blistering attacks on Regentesque policies and the taboos of the “Left Church”.

## Appendix J: Opportunity structure of Markets

*Table J.1: Opportunity structure of markets in England*

<b>Years</b>	<b><u>Event</u></b>
1850-1880	<i>Income inequality increases sharply</i>
1900	Sharpest clashes between consumer co-operatives and private retailers
1900-1905	Downturn in business cycle.
1920-1960	<i>Income inequality decreases (for middle class, not so much for lower class<sup>1224</sup>)</i>
1921	Food prices fall
1918-1930	<ul style="list-style-type: none"> <li>- Merger wave: the Anglo-Dutch company Unilever exemplifies how through a series of mergers starting in 1918 a veritable empire of integration and diversification could be achieved by 1929. The increasing need of marketing and distribution skills forms the rationalisation behind these mergers</li> <li>- Of relevance to the Co-operative Wholesale Society is that Unilever controlled a large chain of grocery shops, including the Liptons groups</li> </ul>
1930s-1940s	The formation of larger corporate firms after the merger wave of the 1920s ushers in a period of market control through formal cartels and informal oligopolistic collusion, rather than further mergers <sup>1225</sup>
1938-1949	<i>Income inequality decreases most sharply</i>
1964-1976	Income inequality decreases for lower classes
1950s-1960s	After the pause in the 1930s and 1940s, firm concentration increases again at a rapid pace
1970-1971	Interest rates fall.
1977-1990	Income inequality increases sharply
1979-1981	British competitiveness on the international market deteriorates by 25 percent from 1979 to 1981
Early 1980s	Inflation tumbles in the early 1980s thanks to the collapse in world commodity prices
1982-1988	<p>Consumer spending rises faster than GDP</p> <ul style="list-style-type: none"> <li>i) consumer savings declines, borrowing soars</li> <li>ii) consumers speculate in assets, most notably houses</li> <li>iii) property prices rise by 75 percent between 1985-1988</li> </ul>

**Table J.2: Opportunity structure of markets in the Netherlands**

<b>Years</b>	<i>Event</i>
1750-1775	Amsterdam investors start pouring large sums of money into the West Indian plantations (Suriname, Guinea...); repayment failure leads to wave of bankruptcies after 1775; after 1775 metropolitan investment drops dramatically
1830-1863	“Cultivation” system of forced cropping and land rent tax in the colonies leads to Dutch budget surplus; revenues of the cultivation system reached a third of the yearly Dutch budget in 1860
1870-1900	Income inequality increases
1914-1918	Working class does not profit from WWI, in which the Netherlands stays neutral; trade and industry decline, unemployment soars, <u>poverty and income inequality grow</u>
1921-1929	Dutch GNP increases comparatively fast (faster than trading partners): “Golden years”; income inequality decreases
1929-1939	Dutch GNP increases comparatively slowly (slower than trading partners); <u>income inequality</u>
1931-1936	The Dutch economy suffers comparatively more than other western-european countries in face of the Dutch monetary policy of not abandoning the golden standard before 1936
1930-1945	The Dutch agricultural and horticultural sector suffers financially during the economic depression; credit demand from this sector is limited to <u>repayments on existing loans</u> .
1938-1950	Income inequality, most notably <u>between the cities of Holland and the provinces</u> , decreases sharply, creating a new middle-class level-playing field between Amsterdam and the provinces (Holland was seriously impoverished during WWII and the introduction of progressive income tax further leveled inequality)
1944, 1949	Devaluation currency (guilder) to compensate for the deficit on the balance of payments (mainly due to the loss of the Indonesian colony)
1941-1953	Rental prices are frozen to curtail inflation. After 1950, a policy of directed yearly increases is instituted. While other prices treble over the period 1940-1949, farm rent increases are limited to 20 %. As a continuation of the 1930 agricultural crisis policy – instituted in the name of “ <u>food shortage</u> ” – agricultural prices are fixed. A directed wage policy is instituted.
1945-1954	As a result of the Labour Foundation wage agreements, wage levels comparatively do not rise faster than price levels.

1950-1970	<p><i>During the period 1950-1975 three developments bring down the level of income inequality</i></p> <ul style="list-style-type: none"> <li>i) the decreasing importance of capital income</li> <li>ii) the introduction of standardized function classification systems of income levels</li> <li>iii) the increasing importance of secondary income (from social subsidies, unemployment benefits...)</li> </ul>
1950-1965	Until 1965 more than 70 percent of industrial investments is based on internal financing
1954-1965	With the vanishing of the balance of payment deficit, wages are allowed to go up. Wages increases comparatively fast. Currency is revalued in 1961 by 5 %. Rental prices soar, agricultural prices are raised to the level foreseen by European agricultural policy. Because wages and prices rise faster (inflation) than in trading partners' countries, the competitive position of the Netherlands deteriorates: the Netherlands' comparative advantage as an island of "cheapness" is lost in face of European economic integration.
1959	Enormous natural gas reserves are found; the Dutch economy starts recovering from the war devastation
1966-1978	<ul style="list-style-type: none"> <li>i) Despite the deterioration of Dutch competitive position, the marketshare in international export rises. Because domestic production costs rise disproportionately, profit margins of export products drop.</li> <li>ii) In the 1960s, the declining productivity of limited liability companies induces a rapprochement of banking and industry. A merger and takeover movement waves over the Netherlands, as part of an extensive process of scaling up and rationalisation. While in 1965 more than half of the liabilities were formed out of own equity capital, this percentage had decreased to 38 percent in 1973. Almost 80 percent of the increase of the balance was on account of foreign capital, mostly short-term.</li> </ul>
1973	Arab oil boycott; the worldwide stagnating economy hits the Netherlands' open and internationally dependent trade economy hard; Unemployment grows.
1979-1985	The competitive position of the Netherlands improves fast.
1980s-1990s	Income inequality increases
2002-	Economic recession; below European average macro-economic performance indicators

## Appendix K: List of all British Prime Ministers (1721-2008)

Year	Prime Minister	Party	Specific
2007	Gordon Brown	Labour	
1997	<a href="#">Tony Blair</a>	Labour	State is an enabling, trustworthy partner for the public, private or “voluntary” sectors, depending on what sector is best placed to realise “mutual purposes”
1990	<a href="#">John Major</a>	Conservative	
1979	<a href="#">Margaret Thatcher</a>	Conservative	
1976	<a href="#">James Callaghan</a>	Labour	
1974	<a href="#">Harold Wilson</a>	Labour	
1970	<a href="#">Edward Heath</a>	Conservative	
1964	<a href="#">Harold Wilson</a>	Labour	
1963	<a href="#">Sir Alec Douglas-Home</a>	Conservative	
1957	<a href="#">Harold Macmillan</a>	Conservative	“Every man a capitalist” <sup>1226</sup>
1955	<a href="#">Sir Anthony Eden</a>	Conservative	“Property-owning democracy” <sup>1227</sup>
1951	<a href="#">Winston Churchill</a>	Conservative	<ol style="list-style-type: none"> <li>1) “service, responsibility and moral integrity”</li> <li>2) communist-socialist threat to freedom and individual enterprise<sup>1228</sup>: home ownership<sup>1229</sup></li> <li>3) maintain Britain as “first-class country”</li> </ol>
1945	<a href="#">Clement Attlee</a>	Labour	
1940	<a href="#">Winston Churchill</a>	Conservative	
1937	<a href="#">Neville Chamberlain</a>	Conservative	
1935	<a href="#">Stanley Baldwin</a>	Conservative	
1931	<a href="#">James Ramsay MacDonald</a>	National	
1929	<a href="#">James Ramsay MacDonald</a>	Labour	
1924	<a href="#">Stanley Baldwin</a>	Conservative	<ol style="list-style-type: none"> <li>1) Working-class “Tory democracy”: social legislation</li> <li>2) National unity: reform local government and abolish unfair local rates impeding industrial revival</li> <li>3) Protection against foreigners (Aliens act + Safeguarding duties)<sup>1230</sup></li> </ol>
1924	<a href="#">James Ramsay MacDonald</a>	Labour	
1923	<a href="#">Stanley Baldwin</a>	Conservative	
1922	<a href="#">Andrew Bonar Law</a>	Conservative	

1916	<a href="#">David Lloyd George</a>	Liberal	
1908	<a href="#">Herbert H. Asquith</a>	Liberal	"People's Budget", Parliament Act 1911 <sup>1231</sup>
1905	<a href="#">Henry Campbell-Bannerman</a>	Liberal	
1902	<a href="#">Arthur Balfour</a>	Conservative	
1895	<a href="#">Marquess of Salisbury</a>	Conservative	
1894	<a href="#">Earl of Rosebery</a>	Liberal	
1892	<a href="#">William Ewart Gladstone</a>	Liberal	
1886	<a href="#">Marquess of Salisbury</a>	Conservative	
1886	<a href="#">William Ewart Gladstone</a>	Liberal	
1885	<a href="#">Marquess of Salisbury</a>	Conservative	"Tory democracy"
1880	<a href="#">William Ewart Gladstone</a>	Liberal	
1874	<a href="#">Benjamin Disraeli</a>	Conservative	"England and empire" <sup>1232</sup> , Tory democracy <sup>1233</sup>
1868	<a href="#">William Ewart Gladstone</a>	Liberal	"Modernisation" of "intermediate" establishment institutions; voluntarism; cheap government, free trade and sound finance <sup>1234</sup>
1868	<a href="#">Benjamin Disraeli</a>	Conservative	
1866	<a href="#">Edward Stanley</a>	Conservative	
1865	<a href="#">John Russell</a>	Liberal	
1858	<a href="#">Viscount Palmerston</a>	Liberal	sound, cautious government at home and a stout defence of national interests abroad
1858	<a href="#">Edward Stanley</a>	Conservative	
1855	<a href="#">Viscount Palmerston</a>	Liberal	Victorian good government: <ul style="list-style-type: none"> <li>- office is a public trust</li> <li>- civil officers should be subject to uniform standards of recruitment, performance and compensation</li> </ul>
1852	<a href="#">George Hamilton-Gordon</a>	Conservative	
1852	<a href="#">Edward Stanley</a>	Conservative	
1846	<a href="#">Lord John Russell</a>	Whig	
1841	<a href="#">Sir Robert Peel</a>	Tory	Repeal of Corn Laws <sup>1235</sup>
1835	<a href="#">William Lamb</a>	Whig	
1834	<a href="#">Sir Robert Peel</a>	Tory	
1834	<a href="#">Arthur Wellesley</a>	Tory	
1834	<a href="#">William Lamb</a>	Whig	
1830	<a href="#">Charles Grey</a>	Whig	Improvement of intermediate institutions

1828	<a href="#">Arthur Wellesley</a>	Tory	Counter evils of commercial society with a responsible aristocracy, endowed clergy, and a national church <sup>1236</sup>
1827	<a href="#">Frederick Robinson</a>	Tory	
1827	<a href="#">George Canning</a>	Tory	
1812	<a href="#">Robert Jenkinson</a>	Tory	
1809	<a href="#">Spencer Perceval</a>	Tory	
1807	<a href="#">William Bentinck</a>	Tory	
1806	<a href="#">William Grenville</a>	Whig	
1804	<a href="#">William Pitt, the Younger</a>	Tory	
1801	<a href="#">Henry Addington</a>	Tory	
1783	<a href="#">William Pitt, the Younger</a>	Tory	
1783	<a href="#">William Bentinck</a>	Tory	
1782	<a href="#">William FitzMaurice</a>	Whig	
1782	<a href="#">Charles Watson-Wentworth</a>	Whig	
1770	<a href="#">Frederick North</a>	Tory	
1767	<a href="#">Augustus Fitzroy</a>	Whig	
1766	<a href="#">William Pitt the Elder</a>	Whig	
1765	<a href="#">Charles Watson-Wentworth</a>	Whig	
1763	<a href="#">George Grenville</a>	Whig	
1762	<a href="#">John Stuart, Earl of Bute</a>	Tory	
1757	<a href="#">Thomas Pelham-Holles</a>	Whig	
1756	<a href="#">William Cavendish</a>	Whig	
1754	<a href="#">Thomas Pelham-Holles</a>	Whig	
1743	<a href="#">Henry Pelham</a>	Whig	
1742	<a href="#">Spencer Compton</a>	Whig	
1721	<a href="#">Sir Robert Walpole</a>	Whig	office as private property <sup>1237</sup>

## Appendix L: The English Consumer Co-operative movement's relationship with politics

Year	Problems	Solutions?
1830	Owen holds Parliament in scorn	<ul style="list-style-type: none"> <li>- Co-operative Commonwealth will make State irrelevant</li> <li>- Down to and including the Rochdale pioneers, Co-operators want nothing from the State in the way of assistance, apart from adequate legal protection</li> </ul>
1840s-1860s	Co-operatives are considered partnerships, and have no statutory legal protection	Christian Socialists and Liberal M.P.s lobby for the institution of protective statutory legislation the Industrial & Provident Societies Act
1840s-...		Religious tolerance and political neutrality, in the sense of not being formally aligned to any denomination or political party, and not posing these elements as conditions for membership
1856	Rochdale Society clashes with State over dividend tax issue	Reluctant payment of taxes
1870	National coordination and standardisation of supra-local competences is necessary to ensure the Co-operative movement's growth	A Co-operative Central Board is established in 1870, later renamed as the Co-operative Union. The Co-operative Board furnishes legal advice, publishes literature and propaganda, promotes cooperative education, and organizes the Annual Congresses, held every spring from 1869. Leadership of the Board is largely in the hands of the Christian Socialists.
1880		<ol style="list-style-type: none"> <li>1) Joint Parliamentary Committee</li> <li>2) Support of some Liberal MPs who are active co-operators or just favourably disposed</li> </ol>
1900-1905	- Labour movement is weakened by 1901 Taff Vale decision, which limits union powers to conduct strikes	<ul style="list-style-type: none"> <li>- Trade Unions and Socialist societies in favour of Parliamentary representation through the Labour Representation Committee (later to become the Labour Party)</li> <li>- Liberal nonconformist leaders such as Holyoake oppose entry into politics: "You are opening the stormy doors of politics"<sup>1238</sup></li> </ul>
1906-1915	- The Liberal government proves to be less favourably	- Joint Parliamentary Committee argues that political representation is imperative but status quo

	<p>disposed towards Co-operative grievances than it declared before coming into power in 1906</p> <ul style="list-style-type: none"> <li>- Trade Union and Labour party pressure within the Co-op movement increases spontaneously</li> <li>- Of every 1,000 members of the Co-operative Societies, 450 voted Conservative</li> </ul>	<p>(neutral “laissez-faire” policy) prevails</p> <ul style="list-style-type: none"> <li>- bulk active co-operators believes pressure group activity is enough</li> <li>- The Co-operative Union Limited is established with the purpose of “propagandist and defensive action”</li> </ul>
<b>1915-1919</b>	<ol style="list-style-type: none"> <li>1) Co-operators treated comparatively bad by government during WWI</li> <li>2) “appalling” ignorance of Co-operative societies by ministers, parliamentarians and most administrators despite the size and importance of Co-operative trade</li> </ol>	<ul style="list-style-type: none"> <li>- As a result of the Emergency Conference in October, 1917, the decision is taken to officially enter into “politics”; the Co-operative Party is formed in 1919</li> </ul>
<b>1918</b>	<p>Lloyd George’s Coalition Government, on the instigation of private traders and the Federation of British Industries, appoints a Royal Commission to inquire into the purported income tax advantages accruing to Co-operative business</p>	<p>Co-operators lobby to get into the Commission and block the calls for income tax levies on “any part of the net proceeds not actually returned to members as ‘dividend’ and equal treatment of taxation with regards to co-operative wholesale and productive societies and retail distributive societies</p>
<b>1920</b>	<p>The income tax is imposed by statutory law in 1920: surpluses arising from co-operative trade are treated as taxable profit by the Inland Revenue</p>	<p>Co-operative lobbying against the tax goes on through petitions and parliamentary pressure.</p> <p>In 1921, the tax is abolished.</p>
<b>1921</b>	<p>Alliance or not with the Labour Party?</p>	<p>During the 1921 Congress the following declaration is made: “identification of the Co-operative Movement in politics with any one political party...will retard the progress of co-operative trade and industry and thus weaken...the Movement. Congress</p>

		therefore declines to ratify the terms of the proposed...Alliance <sup>1239</sup>
<b>1922</b>	What distinguishes the programme of the Co-operative Party?	The Co-operative Party launches a National Programme with as its two main purposes: 1) to safeguard the interests of the voluntary Co-operation and to resist any legislative or administrative inequality which would hamper this 2) The processes of production, distribution and exchange (including the land) shall be organised on co-operative lines in the interests of the whole community (Co-operative Commonwealth)
<b>1926</b>	The Co-operative Party, while being very small, differs not much from the Labour Party, which has to struggle to unite its potential electorate	An "Agreement" between the Co-operative and Labour is concluded.
<b>1921-1932</b>	- The same "private" lobby against Co-operative societies continues to exert pressure on successive governments. - Despite a monster petition signed by 3,346,573 Co-operative members, the Raeburn Committee – installed by the National Government headed by Ramsay MacDonald – in 1932 decides in favour of taxing the "undistributed surpluses" of co-operative societies.	Though the first decade of Co-operative politicking was not unsuccessful, the odds turn in face of a national economic slump: the Co-op movement has to pay an additional annual tax of £1,250,000 on surpluses from 1932 until WWII.
<b>1922-1940</b>	The Co-operative Party lobbies for an Amendment of the Industrial and Provident Societies Act, in order to broaden the legal protection of Co-operatives.	The Co-operative Party's efforts are thwarted by Conservative M.P.s, some of whom are closely associated to private traders or the Federation of British Industries.
<b>1960s-1990s</b>	Consumers' Association overtakes the role of "consumer interest champion" from the Co-op Parliamentary Committee and Party	Co-operative Bank, established as a separate PLC in the 1970s affirms its "apolitical", non party-affiliated nature.

## Appendix M: References to the Consumer Co-operative movement in Labour Party manifestos

(Sources: <http://www.psr.keele.ac.uk/area/uk/man.htm> and  
<http://www.labour-party.org.uk/manifestos/> )

Year	<i>Labour Party</i>
1918	Labour stands with the Co-operative Movement in its insistence on reasonable food prices and fair distribution, and in its resistance to unfair taxation. The Labour Party will do all it can to aid co-operators in their struggle for a democratic food organisation and against unfair discrimination. Labour and Co-operation are a single movement, and in the coming battle with reaction they must fight side by side.
1923	The Labour Party is working for the creation of a Commonwealth Co-operative Service. It believes that so far only a beginning has been made in the scientific organisation of industry. It will apply in a practical spirit the principle of Public Ownership and Control to the Mines, the Railway Service and the Electrical Power Stations, and the development of Municipal Services. It will make work safe for the worker by stricter Inspection of Workplaces, and more effective measures against Accidents and Industrial Diseases. It will provide fuller Compensation for the Workers and improve the Standard of Hours.
1929	The Labour Programme of peaceful but determined National Development and Reconstruction leading towards the Socialist and Co-operative Commonwealth is the only alternative to Reaction and Revolution. On this Programme Labour asks for the support of men and women of good will of all classes.
1931	The Labour Party demands efficiency. Any special assistance of industry must be conditional upon the acceptance of the necessary measure of public ownership or control. ...Because it appreciates the vital importance of the Co-operative Movement, the Labour Party will work in full alliance with co-operators, utilising their long experience and specialised knowledge.
1935	Labour is pledged to a comprehensive programme of industrial legislation...It would repeal the unjust and penal tax which the Government has imposed upon Co-operative Societies
1945	“And the effective choice of the people in this Election will be between the Conservative Party, standing for the protection of the rights of private economic interest, and the Labour Party, allied with the great Trade Union and co-operative movements, standing for the wise organisation and use of the economic assets of the nation for the public good. Those are the two main parties; and here is the fundamental issue which has to be settled. “
1950	No trade union movement in the world has such a proud record as the British. With unexampled restraint and loyalty, it has co-operated to hold wages steady through these difficult years. The great Co-operative Movement has also exerted a steadying effect on retail prices. It is a fine example of democratic co-operation to meet the needs of the people. But many prices are still far too high and a burden to every housewife. Our aim for the future is to bring down excessive prices, by increasing the efficiency of production and distribution.
1959	Existing consumer protection organisations will be encouraged and we shall examine the need for further consumer protection-a task in which the Co-operative Movement will obviously have a great part to play.
1970	We also stress the contribution that can be made by co-operative enterprise. This is already a large sector in the economy, and operates on democratic criteria which we would like to

	see extended. The Labour Party is therefore considering the establishment of a Co-operative Development Agency to give added strength to the rationalisation and development of co-operatives
<b>1974</b>	[we shall] work with the co-operative movement to develop its role through the creation of a Co-operative Development Agency and in other ways.
<b>1979</b>	We will reestablish the Rural Development Boards in England and ensure that the Co-operative Development Agency, the NEB, the tourist boards and the Manpower Services Commission play an active role in rural job creation.
<b>1983</b>	We also believe that a major new role should be played in the industry by public and co-operative enterprise - to provide a new source of enterprise, initiative and innovation
<b>1986</b>	We will encourage the establishment and success of co-operatives of all forms.
<b>1992</b>	Employees should have the opportunity to own collectively a significant stake in the company for which they work, through a democratic Employee Share Ownership Plan (ESOP) or a co-operative. We will strengthen support for such schemes and consult about the possibility of creating a new tax incentive to encourage companies to establish or extend an ESOP or set up a co-operative.
<b>1997</b>	We are keen to encourage a variety of forms of partnership and enterprise, spreading ownership and encouraging more employees to become owners through Employee Share Ownership Plans and co-operatives.
<b>2001</b>	We will modernise company law to promote transparency, reduce burdens on small business and promote long-term economic success. We welcome the recommendations of the Co-operative Commission, which also covered the significant mutual sector, and will examine them with a view to strengthening these important parts of our economy.

## Appendix N: Historical Composition Dutch Government

Period	Cabinet policy label in press and books	Cabinet composition
2006-	“Centrist” (motto prime minister: <i>“back to the Golden Age”</i> )	<ul style="list-style-type: none"> <li>- Coalition between two Christian-democratic parties (CDA and ChristenUnie), and Social-democrats (PVDA)</li> <li>- <b>Prime Minister</b> Balkenende (CDA)</li> </ul>
2002-...	“Centre-Right”	<ul style="list-style-type: none"> <li>- Coalition between Christian Party (CDA), Liberal Party (VVD) and third Party (first New Right (LPF), now New Liberals D66)</li> <li>- <b>Prime Minister</b> Balkenende (CDA)</li> </ul>
1994-2002	“Purple”	<ul style="list-style-type: none"> <li>- Coalition between Social-democrats (PVDA), Liberal Party (VVD) and New Liberals (D66)</li> <li>- Prime Minister Kok (PVDA)</li> </ul>
1982-1994	“Lubbers”	<ul style="list-style-type: none"> <li>- Coalition between Christian-Democratic Party (CDA) and Liberal Party (VVD). In the third term, the Social-democrats (PVDA) replace the VVD in the coalition</li> <li>- <b>Prime Minister</b> Lubbers (CDA)</li> </ul>
1966-1982	“Polarisation”	<ul style="list-style-type: none"> <li>- first coalition between Catholics (KVP) and one Protestant Party (ARP)</li> <li>- second coalition between Catholics (KVP), two Protestant Parties (ARP and CHU), and Liberal Party (VVD)</li> <li>- third coalition between Catholics (KVP), two Protestant Parties (ARP and CHU), Liberal Party (VVD), and Democratic Socialists (DS'70)</li> <li>- fourth coalition between Social-democrats (PvdA), PPR, New Liberals (D66), Catholics (KVP), one Protestant Party (ARP), and the Christian Radicals (PPR)</li> <li>- fifth coalition between New Christian Party (CDA) and Liberal Party (VVD)</li> <li>- sixth coalition between New Christian Party (CDA), Liberal Party (VVD) and New Liberals (D66)</li> <li>- <b>Prime Ministers</b> are Zijlstra (ARP), De Jong (KVP), Biesheuvel (ARP), Den Uyl (PVDA) and Den Agt (CDA)</li> </ul>
1958-1966	“Welfare State”	<ul style="list-style-type: none"> <li>- Three christian parties (ARP, CHU en KVP), that mainly govern in coalition with the liberal party VVD (from 1959 to 1965). During the years</li> </ul>

		years 1965-1966, ending in the 'Night of Schmelzer', the social-democratic party (PvdA) is part of the governing coalition - <b>Prime Ministers</b> Beel (KVP), De Quay (KVP), Marijnen (KVP) and Cals (KVP)
1945-1958	“Roman Catholic – Red”	- KVP and PVDA form centre of cabinet - <b>Prime Ministers</b> Schermerhorn (first Liberal-democratic Party, later PVDA), Beel (KVP), Drees (PVDA),
1939-1945	“War”	
1918-1939	“Interbellum”	- Pillarisation and the supremacy of the confessional parties characterise the interbellum. - <b>Extra-Parliamentary cabinets</b> <sup>1240</sup> led by De Beerenbroeck (Roman Catholic Electoral Association), Colijn (ARP) and De Geer (CHU)
1913-1918	“Pre-WWI”	Last non-confessional government before the 1990’s is formed
1897		A progressive Liberal government is formed, “the cabinet Pierson”. A conservative “old” liberal becomes Minister of Foreign Affairs.
1894		A Liberal government (with one catholic minister) is formed, called the “cabinet Roëll”.
1891		The “right”, i.e. the protestant and catholic parties lose their majority. A liberal-progressive cabinet is formed.
1888		First confessional coalition government is formed, composed of a small combined majority of Anti-revolutionaries and Catholics. The government also contains a few Conservatives.
Before 1888		Before 1848 Ministers were in the first place servants of the King that convened on a very irregular basis. These Ministers generally speaking were Conservatives, i.e. members of the 19 <sup>th</sup> century political movement that opposed democratisation. The first regular government cabinet was formed in 1848. Until 1888, government cabinets barely had a clear political party orientation. From 1888, when a system of quadrennial elections was introduced and political parties were established, all this changed.

## Appendix O: General election results by English region, 1900-1997

(source: Butler, 2000: 395-398)<sup>1241</sup>

	1900	Dec 1910	1922	1931	1945	1951	1964	1979	1987	1997
<b>London</b>										
Cons	51	30	43	53	12	14	10	50	58	11
Lib	8	26	9	4	-				3	6
Lab	-	3	9	5	48	29	32	42	23	58
<b>Rest SE</b>										
Cons	123	103	130	156	88	153	156	146	170	95
Lib	32	49	23	4	3		3	3	3	22
Lab	-	2	9	5	91	46	46	13	3	48
<b>Midlands</b>										
Cons	60	50	53	80	24	35	42	57	67	28
Lib	27	30	17	3	-					1
Lab	1	8	17	4	64	59	54	41	33	74
<b>North</b>										
Cons	98	50	82	146	43	69	53	53	63	13
Lib	55	82	27	9	2	2		4	4	5
Lab	-	21	60	15	128	99	114	107	96	139
<b>University</b>						-	-	-	-	-
Cons	9	9	8	8	4					
Lib			3	2	1					
Lab										
<b>TOTALS</b>										
Cons	402	272	345	521	213	321	304	339	376	165
Lib	184	272	116	37	12	6	9	11	22	46
Lab	2	42	142	52	393	295	317	269	229	419

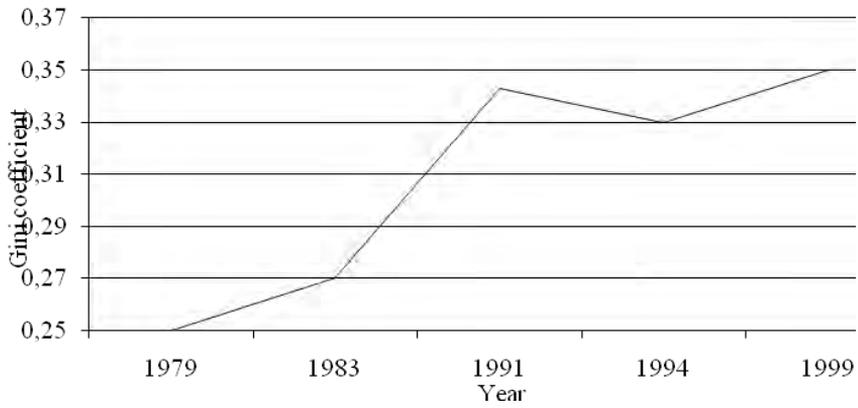
**Appendix P:**  
**Social and educational composition of British Cabinets, 1895-1997**

(Source : Butler, 2000: 407)

			No.	Arist 1242	Class Middle	Class Working 1243	Public School	Edu Eton	Educ Univ.	Edu Oxbridge
1895	Conservative	Salisbury	19	8	11	-	16	7	15	14
1902	Conservative	Balfour	19	9	10		16	9	14	13
1905	Liberal	Bannerman	19	7	11	1	11	3	14	12
1914	Liberal	Asquith	19	6	12	1	11	3	15	13
1919	Coalition	Ll. George	21	3	17	1	12	2	13	8
1922	Conservative	Bonar Law	16	8	8		14	8	13	13
1924	Labour	MacDonald	19	3	5	11	8		6	6
1924	Conservative	Baldwin	21	9	12		21	7	16	16
1929	Labour	MacDonald	18	2	4	12	5		6	3
1931	National	MacDonald	20	8	10	2	13	6	11	10
1935	Conservative	Baldwin	22	9	11	2	14	9	11	10
1937	Conservative	Chamberlain	21	8	13		17	8	16	13
1945	Conservative	Churchill	16	6	9	1	14	7	11	9
1945	Labour	Attlee	20	0	8	12	5	2	10	5
1951	Conservative	Churchill	16	5	11		14	7	11	9
1955	Conservative	Eden	18	5	13		18	10	16	14
1957	Conservative	Macmillan	18	4	14		17	8	16	15
1963	Conservative	Home	24	5	19		21	11	17	17
1964	Labour	Wilson	23	1	14	8	8	1	13	11
1970	Conservative	Heath	18	4	14		15	4	15	15
1974	Labour	Wilson	21	1	16	4	7		16	11
1976	Labour	Callaghan	22	1	13	7	7		15	10
1979	Conservative	Thatcher	22	3	19		20	6	18	17
1990	Conservative	Major	22	3	17	2	14	2	20	17
1997	Labour	Blair	22	0	15	7	8	-	21	3

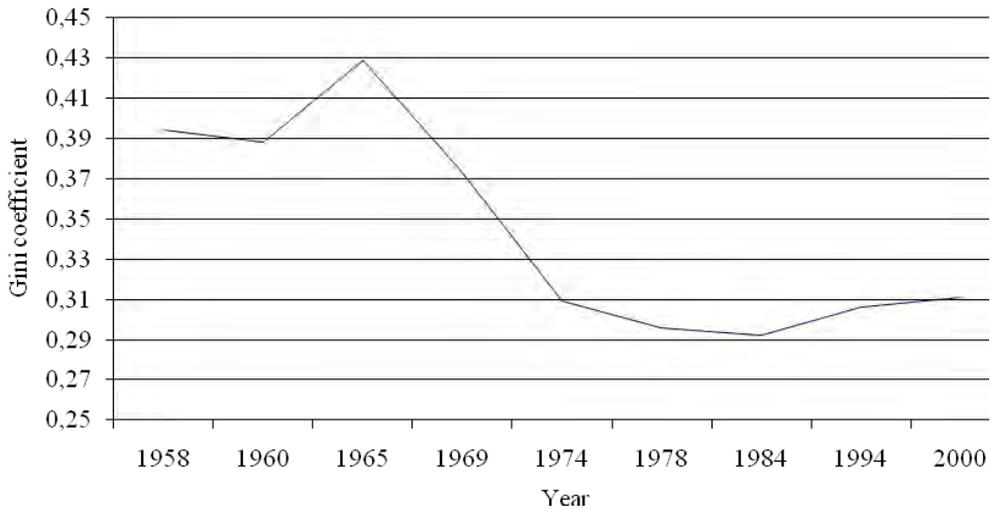
## Appendix Q: Income inequality

### Income inequality UK



Source: <http://www.ifs.org.uk/election/ebn4.pdf>

### Income Inequality NL



**Table Q.1: Income inequality**

Gini-coefficient (0 means total equality, 1 total inequality) and relative poverty rates (percentage of households earning less than 50% of median income) in selected Western countries (based on annual equivalent disposable household income<sup>1244</sup>)

	Mid 1980s		Most recent year available		
	Gini	Poverty	Year	Gini	Poverty
Aus	0,292	11,9	1994	0,311	12,2
Austria	0,227	6,7	1997	0,266	8,0
Bel	0,227	4,5	2000	0,277	8,0
Can	0,283	6,9	2000	0,304	11,4
Den	0,254	10,1	1997	0,257	7.2 (1992)
Fin	0,209	5,4	2000	0,247	5,4
Fr	0,292	8,0	1994	0,288	8,0
Ger	0,249	6,5	2000	0,252	8,3
I	0,306	10,4	2000	0,333	12,7
<b>NL</b>	<b>0,260</b>	<b>4,7</b>	<b>1999</b>	<b>0,248</b>	<b>7,3</b>
Sw	0,218	7,5	2000	0,252	6,5
Swi	0,309	7,6	1992	0,307	9,3
<b>UK</b>	<b>0,303</b>	<b>9,1</b>	<b>1999</b>	<b>0,345</b>	<b>12,4</b>
US	0,335	17,8	2000	0,368	17,0

Source: Luxembourg Income Study (LIS) Key Figures, accessed at

<http://www.lisproject.org/keyfigures.htm> on 16/3/05

The Gini-coefficient is derived from a Lorenz curve, 0 means total equality and 1 is total inequality (one person earning the total income, everyone else earning nothing).

## Appendix R: Key economic figures of the Dutch Co-operative Banks

**Table R.1a: Comparison cost structure of Dutch banks**

<b>Costs / Total results (average percentage)</b>	<b>Cooperative Bank</b>	<b>Commercial Banks</b>
<b>1908-1939</b>	0.5	1.9
<b>1956-1960</b>	0.9	2.3
<b>1966-1970</b>	1.5	2.4
<b>1976-1980</b>	2.2	2.0
<b>1983-1996</b>	2.0	2.0

**Table R.1b: Comparison ratio interest assets / total results of Dutch banks**

<b>Interest Assets / Total results (percentage)</b>	<b>Cooperative Bank</b>	<b>Commercial Banks</b>
<b>1908-1939</b>	0.9	2.4
<b>1956-1960</b>	1.3	2.4
<b>1966-1970</b>	2.0	2.3
<b>1976-1980</b>	2.6	2.0
<b>1983-1996</b>	2.5	1.8

**Table R.2: Added figures of both Co-operative Centrals**

	<b>1908</b>	<b>1928</b>	<b>1948</b>	<b>1968</b>	<b>1988</b>	<b>1998</b>
<b>Balance figures</b>	22	514	1,835	14,490	161,576	550,307
<b>Profit x f 1million</b>	0	2,5	6	38	778	2,062
<b>Equity capital x f 1million</b>	0	22	80	351	9,282	22,877
<b># Local banks</b>	509	1,270	1,313	1,249	906	445
<b># Members x 1,000</b>	39	208	268	571	780	565

**Table R.3: The evolution of the combined Co-operative Banks' share of Dutch banking (in percentages)**

<i>In terms of</i> <b><u>Year</u></b>	<b>Total Assets</b>	<b>Savings</b>	<b>Mortgages</b>
<b>1908-1939</b>	5	28	5-10
<b>1956-1960</b>	17	38	10-20
<b>1966-1970</b>	21	40	20-25
<b>1976-1980</b>	21	42	25-30
<b>1983-1996</b>	21	38	20-25

## Appendix S: Denominational affiliation Dutch firms

**Table S.1: affiliation of organisational leadership in the Netherlands around 1900**

<i>Affiliation</i>  <i>Economic organisation</i>	<b>Regent</b>	<b>Liberal</b>	<b>Reformed Protestant</b>	<b>Catholic</b>	<b>Socialist</b>
<b>Old merchant banks</b>	xx				
<b>New provincial banks</b>		x	xx		
<b>Mortgage banks</b>		xx	x	x	
<b>General Savings Banks</b>		xx	xx	x	
<b>Post Office Savings Bank</b>	X	xx			
<b>Co-operative Banks</b>	X		xx	xx	
<b>Consumer Co- operatives</b>					xx

**Table S.2: affiliation of organisational leadership in England around 1900**

<i>Affiliation</i>  <i>Economic organisation</i>	<b>Conservative – Anglican</b>	<b>Liberal - Nonconformist</b>	<b>Commonwealth</b>	<b>Labour</b>
<b>Old merchant banks</b>	xx			
<b>New clearing banks</b>	x	x: provincial legacy		
<b>Trustee Savings Banks</b>	x	x		
<b>Post Office Savings Bank</b>				
<b>Consumer Co-operatives</b>		xx	x	x
<b>Building Societies</b>	x	x: northern legacy		

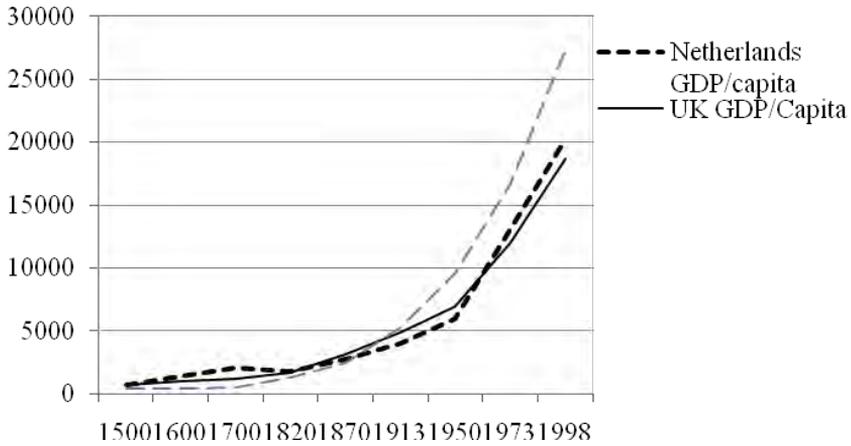
**Table S.3: religious membership of commissioners occupying interlocking directorates at the turn of the twentieth century**

(Source: Schijf, 1998: 39, Table 3.1)

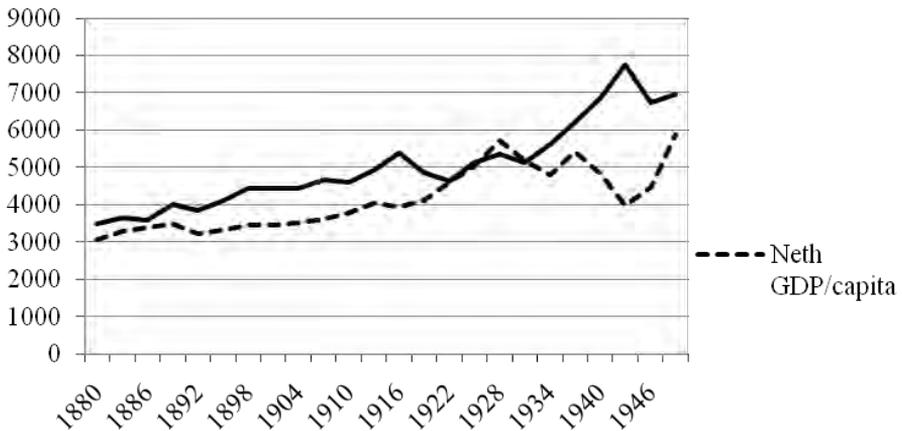
<b>Religious affiliation</b>	<i>Number of commissioners</i>
Dutch Reformed	79
Baptist	19
Evangelican Lutheran	14
Roman-Catholic	11
Remonstrant	8
New-Israelite (Jewish)	7
Other	3
No	3
Unknown	52
<i>Total</i>	<i>197</i>

## APPENDIX T: GDP/CAPITA COMPARISONS

GDP per capita NL, UK, US from 1500-1998 (1990\$)  
 (Source: Maddison, 1991)

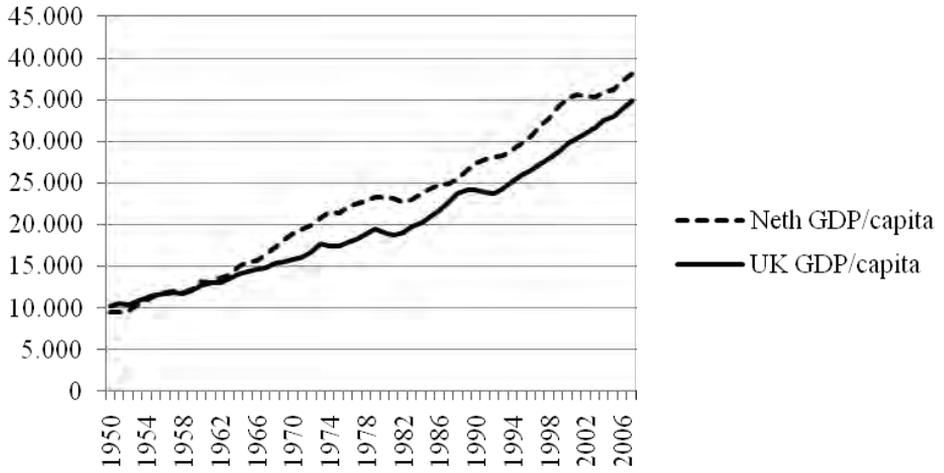


GDP per capita NL and UK from 1880-1949 (1990\$)  
 (Source: Maddison, 1991)



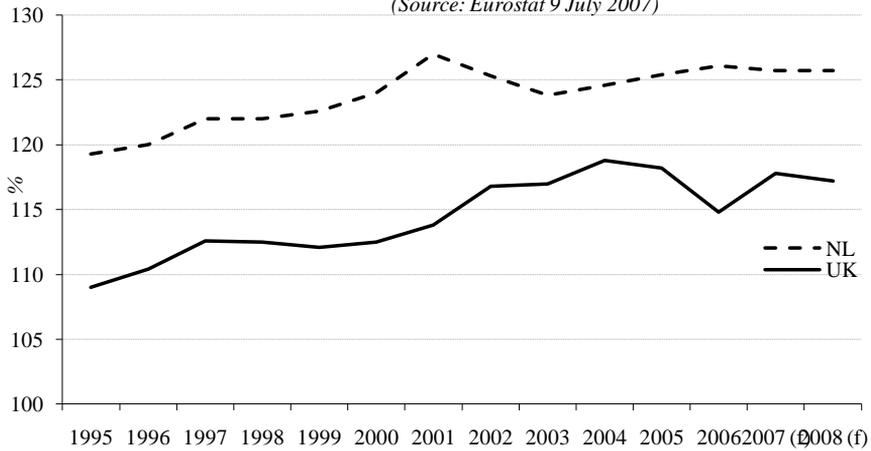
GDP per capita NL and UK from 1950-2007 (2007\$)

(Source: Total Economy Database, 2007)



Comparison GDP/capita in PPS NL & UK, 1995-2007 (EU 25=100)

(Source: Eurostat 9 July 2007)



**Table T.1: GDP per capita relative to the UK (1974-2004)**  
*(based on Dilnot and Emmerson. 2000: 345;*  
*Eurostat News Release June 2005<sup>1245</sup>;*  
*Fredrik Bergstrom and Robert Gidehag, 2004. "EU vs. USA."<sup>1246</sup>)*

	<b>1974</b>	<b>1979</b>	<b>1984</b>	<b>1989</b>	<b>1994</b>	<b>2004</b>
<b>France</b>	122	122	121	114	113	93
<b>Netherlands</b>	116	113	111	104	110	100
<b>United States</b>	160	160	159	149	151	135

## Appendix U: Trade Union membership

Figure U.1: Union membership in the Netherlands

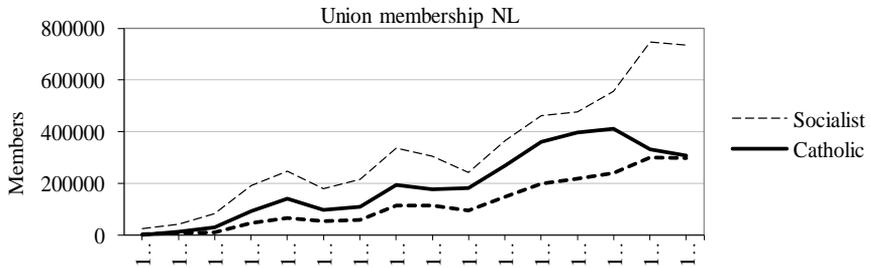
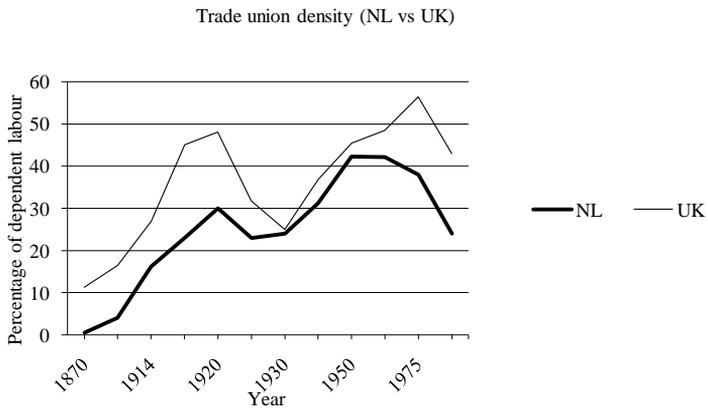


Figure U.2: Trade Union density in the Netherlands versus the United Kingdom  
(membership as a percentage of the “dependent” labour force)  
(Source: Van Zanden, 1997: 106)



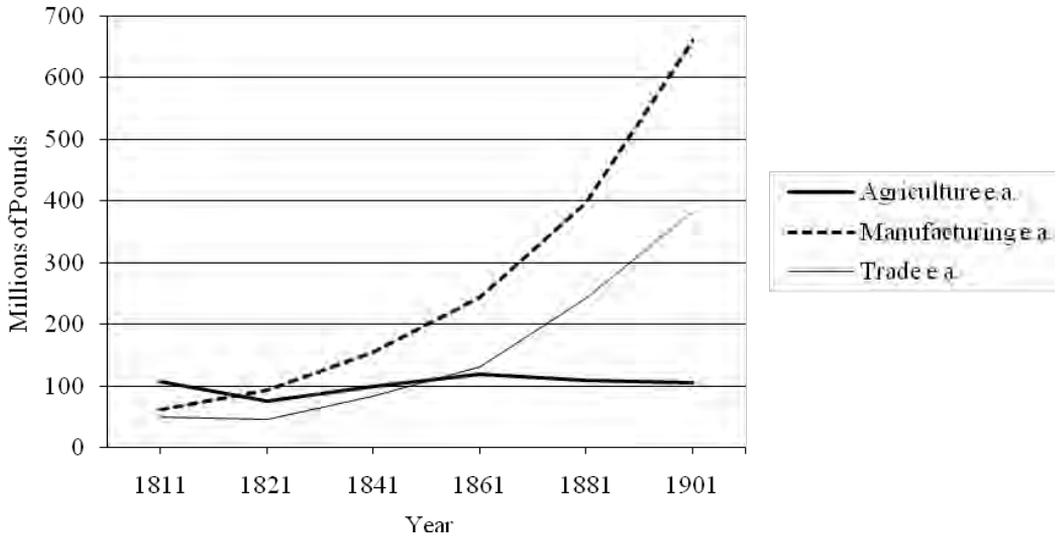
## Appendix V: Housing tenure patterns

**Table: UK and Netherlands tenure patterns in 1950, 1985 and 1990 (%)**  
(Based on Table 1.1 in Doling, 1997: 15 and Table 1.7 in Feddes, 1995: 52)

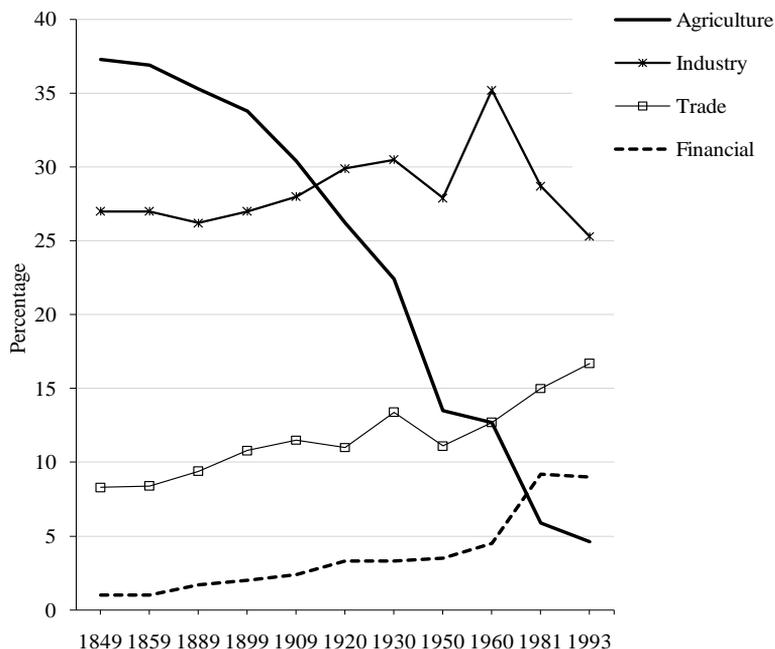
		<b>Owner-occupation</b>	<b>Non-profit renting</b>	<b>Private renting</b>
<b>1950</b>	<b>UK</b>	28	15	57
	<b>NL</b>	29	18	53
<b>1985</b>	<b>UK</b>	62	30	8
	<b>NL</b>	43	42	15
<b>1990</b>	<b>UK</b>	68	25	7
	<b>NL</b>	44	44	12

## Appendix W: Economic importance different sectors

Balance total different sectors Engl (1811-1901)



### Labour force per sector (NL)



<sup>1045</sup> The expression "The Low Countries" (Les Pays-Bas) was phrased at the Burgundian court in Dijon, to describe the conglomerate of territories acquired, beginning with Flanders-Artois in 1384. It came to be applied for those territories in the area which ultimately came under the rule of the Burgundian Dukes and their successors, the Habsburg family.

<sup>1046</sup> Philip the Bold, Duke of Burgundy, acquired Flanders and Brabant. His Grandson Philip the Good was inaugurated as Count of Holland in 1433.

<sup>1047</sup> The States-General was the first representative assembly of the Burgundian provinces. The institution grew organically from the beginning of the fifteenth century, with each of the provinces that were successively added to the Burgundian realm bringing in their own power and traditions to a joint assembly. Generally speaking, the assembly was summoned each time all provinces had a common problem. Remarkably, these problems were nearly all about economic policy. Indeed, the States General originally had been founded by Philip the Good to simplify the process of putting fiscal demands to the different provinces and to coordinate the provincial currencies (Spufford, 1970). The provincial States, however, successfully discouraged this fiscal simplification. In the end, the States General only ever handled problems to do with foreign export or import. For instance in

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1430, Philip the Good summoned the estates of Brabant, Flanders, and Holland to a joint assembly in order to discuss the high price of English wool, a question in which all three provinces were vitally interested (Koenigsberger, 1971: 126-128).

<sup>1048</sup> The defeat of Charles the Bold in the 1477 battle of Nancy, not only resulted in the Burgundians losing the Duchy of Burgundy to the French king, but also led to a profound policy crisis in the Low Countries. A sort of legal revolution took place during this crisis, in which the provincial elites managed to impose a set of institutional reforms, known as the Grand Privilege, which strongly curtailed the central power of Mary of Burgundy (Charles' heiress). Content with this agreement the patricians in the States General were happy to recognise Mary as the legitimate successor of her father, and to take measures to protect the Low Countries against the French King. Yet, between 1490 and 1506 Philip the Fair was able to regain much of the central power that had gone lost in the 1477 crisis. In addition, the marriage of Philip with Juana of Castile sealed the alliance between the Habsburgs and the Spanish monarchs against the King of France; the Low Countries were united with Spain.

<sup>1049</sup> By the beginning of the sixteenth century, no less than two thirds of the inhabitants of the Low Countries lived in cities, half of which in the main towns Antwerp, Brussels, Gent and Amsterdam.

<sup>1050</sup> Trade and industry had flourished in these regions already from the late Middle Ages, partly because of their favourable geographical position, partly due to the strategic usage of a number of international routes. In cooperation with local town leaders, merchants were able to turn the omnipresence of water (sea and rivers) into a positive force, by constructing a dense network of ports and water connections which facilitated the formation of an internal market. Other innovations, such as the invention of the full-rigged herring buss ensured the dominance of the Low Countries over the North Sea Herring grounds. In addition, the merchants' seagoing ships formed the basis of the increasing bulk-carrying traffic between the Baltic (grain and timber) and western France and Portugal (salt). With the centre of the international economy gradually shifting from the Mediterranean to the Atlantic coasts of north-western Europe, Antwerp had become the trading and financial centre of Europe and Amsterdam the centre for the Baltic grain trade by the beginning of the fifteenth century.

<sup>1051</sup> Different from the German territories and the Southern Netherlands, the Northern Netherlands, with the possible exceptions of the cities of Utrecht and Dordt, did not experience guild-revolutions in the fourteenth and fifteenth century that caused important political changes in favour of guild representatives (Prak, 1994: 22). In addition, unlike the situation in German or British cities, Dutch guilds did not so much further the monopolistic interests of a few, but rather represented inclusive instruments of civic government and techniques of "the general interest", as encouraged by the ruling patrician Burghers. As a result, the Dutch guilds rarely possessed the influence that they had elsewhere in Europe. As described by De Vries and Van der Woude (1997 : 162-163): "their role typically was to implement municipal economic policies – policies about which they could submit requests, but which were decided in their absence. Internally, the guilds' importance to their members resided chiefly in matters of safety and security, such as the suppression of competition, ...the extension of credit in poor years. The patrician urban magistracies always kept their thumb on the guilds...[they were the] vehicle whereby the government sought to advance its vision of an urban general interest. This vision tolerated a measure of particularism relative to the outside world, but it did not usually tolerate the maintenance of unequal market access within the city".

<sup>1052</sup> Thus, the Stadtholders customarily originated from the same southern group of nobles.

<sup>1053</sup> In the sixteenth century, many territorial realms had functioning representative bodies whose writ was coterminous with the king's (e.g. England, Castile, Poland), but for various reasons none of these bodies became involved in the management of long-term debt.

<sup>1054</sup> As noted by Tracy ( 1985: 221), the innovative character of these annuities as a way to fund long-term debt came about in three stages. First, Habsburg gents of the central government were able to persuade the States, as early as 1515, to adopt the novel principle of collective responsibility for the issuance of renten. This principle was no mean achievement, given that noble-burgher conflicts and intra-urban jealousies were at least as common in these provinces as elsewhere in Europe. In 1542 - this was the second step - Mary of Hungary and her advisers induced the States to accept the 'novel expedients', which included new provincewide excise and land taxes, as well as new series of renten that came to be funded by these taxes. Finally, in 1553 the regent and the States agreed to abandon the custom (prevalent hitherto in Holland, at least) of forced buying; it was this decision, encouraged no doubt by currently high level of interest rates, which as it were opened the tap and allowed urban capital to flow freely into the refinancing of state debt. The end product of these decisions deserves to be recognised as a financial revolution, not so much because by these means the government could raise unprecedented sums during the great war of the 1550s, but rather because it marks the first time in European history that the future revenues of whole provinces could be mobilised for present needs through the mechanism of credit.

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<sup>1055</sup> The prince of Orange declared in the Brussels States General that an end should be made to “the arbitrariness with which kings determine and direct the religious sentiments of their subjects” (Vlekke, 1945: 133-134). The prince clearly envisaged a situation in which the majority of Catholics would live side by side with the minority of Calvinists. He gave advice to the duchess of Parma and recruited troops against her all at the same time (135).

<sup>1056</sup> A significant step along the way towards the establishment of the new state in the North was the Union of Utrecht, concluded in January 1579. Essentially a defensive alliance between rebel regions and towns, the document came to be seen in later years as the equivalent of the Republic’s constitution. The dilemma of the new state was formulated in the very first clause, stating that on the one hand the united provinces would behave “as if they constituted only a single

province”, but at the same time that all regional and urban “special and particular privileges, franchises, exemptions, rights, statutes, laudable and long-practiced customs” and so on, would be carefully maintained and protected by each individual member of the union (Rowen, 1972, p. 70; Van Zanden and Prak, 2004).

<sup>1057</sup> Dutch ministers like Udemans, Cloppenburg and others showed themselves far less distrustful of aggressive profit-seeking than their English colleagues in the sixteenth century.

<sup>1058</sup> Both the cosmopolitan and moderate tones were especially predominant in the Holland province, where merchants dominated the provincial State assembly. Such attitudes remained typical of the whole Holland regent class during the seventeenth and eighteenth centuries.

<sup>1059</sup> De Baena summarised how the old Dutch version of tolerance translated in twentieth century terms (1966: 21): “Life in any part of Holland is only possible if one embraces wholeheartedly the attitude of the particular community towards personal and political freedom. On the other hand, all these different and numerous communities, which are capable of tolerating one another with understanding, are certainly not very fond of each other [tolerance, after all, does not imply love] [my italics]. Once you have discovered that there is no love lost among these small communities, it is easy to observe the sparks of fanaticism which break out here and there periodically without any outward signs of cruelty or persecution in the people, who react, nevertheless, with an obstinate rigidity and stubbornness. In his heart of hearts, each Dutchman believes that the social conventions of the community in which he lives are the only proper ones to follow”.

<sup>1060</sup> For a more detailed explanation of monetarism, not in the naive Friedmanian sense, but as an historically informed term, see page 449.

<sup>1061</sup> It ensured “the integration of these groups to a minimal degree such as to prevent the jeopardizing of the national existence. A breakdown of the latter would be detrimental to the relative autonomy of all its constituting parts. Interactions between the groups involved are structured according to this institutional arrangement” (Bax, 1988).

<sup>1062</sup> This paper was prepared by the legal adviser of the Holland city of Gouda, François Vrancken.

<sup>1063</sup> Only Friesland, set at 11.7 percent came anywhere close. The other provinces were set below (Zeeland, at 9 per cent) or far below (Overijssel, at 3.6 per cent) even a tenth of the total tax burden.

<sup>1064</sup> Up to 1600 the largest part of public finance was in taxation rather than in public borrowing; foreign subsidies and foreign loans – provided by for instance the Prince of Orange and English merchants – were more important than the domestic capital market as a source of finance for the army. While in England the upgrading of both the government’s creditworthiness and its capacity of public borrowing had been achieved largely through the contracting of short-term loans from a small and trusted merchant elite – organised in the Bank of England, the Dutch Republic’s financial revolution was built on an ever-expanding short-term debt on the money market of Amsterdam a few other towns (Fritschy, 2003: 80-81).

<sup>1065</sup> Founded in 1609 at the initiative of foreign – protestant and jewish – merchants who had come to Amsterdam after being expelled from Antwerp by the Habsburgers, the Bank was the first in outlawing all existing money changers and cashiers. The Bank was a huge success: as early as 1610 it performed major deposit, transfer, clearing, exchanging and purchasing functions in the Amsterdam Exchange. Confronted with the circulation of an estimated 1,000 different gold and silver coins, the city of Amsterdam in 1638 determined a currency standard that in 1659 was adopted by the States General of the Netherlands.

<sup>1066</sup> Amsterdam’s population more than tripled from ca. 30.000 in 1565 to ca. 100.000 in 1630, as many of the refugees from Antwerp settled down here.

<sup>1067</sup> In 1621, the V.W.C. was formed as a counterpart to the V.O.C. for the West Indies trade.

<sup>1068</sup> One demonstration of the Regents’ attempts to limit the potential political role of the Church was the representation of “commissioner delegates” of the States at the meetings of the synods of north and south Holland. The task of these representatives was to ensure that the discussions of Church bodies remained within limits acceptable to the States, and did not trespass into political areas which the States deemed to be none of their business (Price, 1994: 185).

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<sup>1069</sup> In addition, the Reformation seems to have reinforced rather than eliminated religious diversity. Often, a whole congregation was either converted to Protestantism or remained Roman Catholic. Religion united whole communities in the weekly services. So, while in Roman Catholic parishes common acceptance of ritual and doctrine bestowed a sense of fellowship, in Protestant congregations the lay duties of church administration stimulated active communal participation. Even in the face of increased socio-economic mobility and encroaching secularisation, many towns and villages remained religiously homogeneous. And local unity of faith was usually reflected in municipal government (Goudsblom, 1968: 141-142). Thus, religion arguably was one of the best-tested source of mobilisation and advocacy in the Dutch Republic and later the Netherlands (Gladdish, 1991: 20, 43).

<sup>1070</sup> This is one of the reasons why in contemporary parlance the provinces of Holland and the modern nation-states Netherlands are often treated as one.

<sup>1071</sup> So, when the Amsterdam burgomaster – and major grain merchant Cornelis Hooft – was informed of these plans, he fumed "that many prominent citizens will rather leave, than stay with us under those conditions". Furthermore, he argued that many towns would not have joined the Revolt, had they known that it would come to this (Hooft, 1925: 7).

<sup>1072</sup> There was no "higher" civil service in the Dutch Republic (Eldersveld et al. 1981: 11-12).

<sup>1073</sup> Words of the prominent Orangist propagandist Ericus Walten (1689. *Onwederlegelijk Bewijs*. The Hague: 11-12) cited in Israel (2004: 21).

<sup>1074</sup> The stadtholders made sure that Holland would not dominate the States-General, by requiring that each one of the seven "united provinces" would have one vote in the States-General and that for important decisions unanimity would be required.

<sup>1075</sup> The services which William's Sephardi associates performed on his behalf thus were by no means only financial and were by no means simple business transactions (Israel, 1997: 343).

<sup>1076</sup> From the unwritten efforts of Aethelbert of Kent to Ine of Wessex to Offa of Mercia to the great Saxon codifications of customary law, beginning with Aethelbert in the early seventh century and reaching high points under Alfred (871-899) and Cnut (1016-1035) (Colls, 2002).

<sup>1077</sup> William the Conqueror was the first King to make London the centre of government – though London at first had to share this privilege with Winchester.

<sup>1078</sup> Indeed, London was unique in its concentration of consumer-oriented industries and services and its reliance on wealth derived from overseas trade and government expenditure (cf. Fisher, 1989).

<sup>1079</sup> Roman London had been a trading settlement before becoming a military and governmental centre. Likewise, while London was not the dominant base of English political authority in the early Middle Ages, it was attractive because of its propitious location and the consequent concentration of money, men and goods. It is only by the fifteenth century that London became England's political capital, if anything because it had become the principal repository of the state treasury and the main source of goods and credit for the crown. Thus, in contrast with Paris, London has developed its own city institutions separately from state institutions. To exemplify this difference, London in the seventeenth century was still described as a "republic of wholesale merchants". And it is being described again as such at the beginning of the twenty-first century (Keene, 2004: 470-472).

<sup>1080</sup> For wealth accumulation would lead to fear to lose goods and subsequently willingness to adopt English civility as a means to gain protection of property rights from the State.

<sup>1081</sup> The London merchant elite received preferential treatment in terms of taxation in the sixteenth century, most notably through the so-called "subsidy". Tax farming was even outsourced to London merchants in the 1590s.

<sup>1082</sup> In the same vein, Londoners made a significant contribution to the English civilising mission in Ireland through Dublin in the thirteenth century (Watt, 1986: 150-157).

<sup>1083</sup> The British isles were largely colonised by 1300.

<sup>1084</sup> Dominated by Tories, the English Parliament was not very keen on a banking system geared towards bills of exchange. This device had been developed in Italian and Low Countries' city-states in the 13<sup>th</sup> century to address the needs of long distance merchants who dealt with various currencies (De Roover, 1949; Munro, 1979). The device of bills of exchange enabled bankers and merchants to circumvent laws against usury that prohibited the payment of interest on loans. By speculating on variations in exchange rates between currencies, bankers could make a profit without explicitly imposing interest rates (Knafo, 2007: 13-14).

<sup>1085</sup> Parliament, a term which was not used before the 16th century, had begun life as an irregular gathering of noblemen, summoned by the King to extract pledges and impose taxes. By the 15th century it was divided into, on the one hand, a House of Lords, populated by the peerage of the King (the lords temporal) and all the bishops (the lords spiritual), and, on the other hand, a House of Commons which increasingly was populated by the landed gentry and an emerging merchant rank. Under the Tudors, who reigned from 1485 until 1602, the English monarchy was at the zenith of its powers. Nonetheless, the Tudors chose to try and control potential challenges of

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bishops, landed gentry and merchants through Parliament. Thus, The rise of the House of Commons was an integral part of Tudor policy (North and Thomas, 1972: 147). That this policy put limits on the royal prerogative is exemplified by the repeated claims by Parliament, which at that time still was an irregular assembly, that the King was expected to live on his own financially speaking. Yet, while Henry VIII saw it fit to confiscate monasteries' lands and possessions to add to his revenues, he did not find it appropriate "with nearly half the peers and at least four-fifths of the clergy against him" (Richardson, 1952: 5) to antagonise the House of Commons beyond these bounds. Despite the slight increase in influence of the middle ranks, during the whole sixteenth century the Tudors managed to consolidate the old policy of separating political and religious from economic authority only when it was opportune to themselves. This status-quo behaviour manifested itself in for instance a continued opposition against enclosures, and their use of monopolies and other mercantilistic techniques to excise revenues.

The Stuarts, which reigned from 1603 until 1687, inherited what the Tudors had sown: a House of Commons ready to claim more sway in governing matters. The fact that the Stuarts, i.e. James I, Charles I, Charles II and James II, all were looking to extend their royal prerogatives, meant antagonism vis a vis parliament was looming large during most of the seventeenth century. At the beginning of the 17th century, the execution of laws and expenditures was not subject to a public budgetary process yet. Parliament played only a minor role in expenditure and investment decisions; its only influence over policy resulted from the Crown's dependence on tax revenue, typically for extraordinary purposes such as various wars (North and Weingast, 1989: 809). While Parliament was also responsible for granting the Crowns revenues from customs and other sources, in practice, the Stuarts continued to collect the revenue without parliamentary consent.

The first Stuart, James I, was a Scotsman who believed in the Divine royal prerogative to rule. When he came to power in 1603, he inherited sizeable debts from Elizabeth's war. Though he sold 25 percent of Crown lands, this was not enough to resolve his financial difficulties. In order to resolve his difficulties he resorted to different fund raising methods. So, he ordered the raising of customer revenues through new impositions. Another method used was to demand "forced loans", which in practice were never repaid. Finally, he misused patent monopolies to expropriate more quasi-rents. Charles I (1625-49) continued his father's acrimonious relationship with Parliament, squabbling over the right to levy taxes in the form of purveyances, and expanding peerage in exchange for revenue (Maitland, 1961). Parliament responded with the Petition of Right in 1628. It was the most dramatic assertion of the traditional rights of the English people since the Magna Carta. Its basic premise was that no taxes of any kind could be allowed without the permission of Parliament.

Charles finally had enough, and in 1629 he dissolved Parliament and ruled without it for eleven years. Through the institution of the Star Chamber as a royal court, the raising of custom revenues through new impositions, the practice of forced loans, and the sale of monopolies, Charles I tried to extend his powers and find financial solvency beyond parliamentary consent. The failure of both James I and his son Charles I to understand the English tradition of parliamentary liberty eventually led to civil war.

<sup>1086</sup> In this non-isolationist view, Catholics were not so un-English after all.

<sup>1087</sup> In the aftermath of the Civil War, the Anglican landed elite was mainly concerned with entrenching domestic political order (Cain and Hopkins, 1987: 1).

<sup>1088</sup> Apart from the differences between Anglicans and Dissenters, the most striking feature in the religious landscape was the gulf between Protestantism and Catholicism. From the late seventeenth century until 1829, English Catholics were not allowed to vote and were excluded from all state offices and from both houses of Parliament. They were discriminated in terms of taxation, access to education, property rights and freedom of worship. In The legal position of Protestant non-conformists was very different. They could vote providing they met the relevant property qualifications, they could build their own churches, they could set up their own education facilities, and they even could carry arms. On the other hand, they had to conform at least occasionally to Anglican worship in order to be eligible for state of local office. But, in practice, dissenters were able to penetrate almost all levels of the policy system including Parliament itself.

<sup>1089</sup> Before the Civil War there was no symbiotic relation between the King, parliament and the London merchant elite. On the one hand, the Crown ceded to pressure from the London merchants by granting them a preferential taxation regime. And as long as London merchants escaped taxation of their disproportionately – compared to other British regions – growing wealth, the taxation system was bound to be a failure. On the other hand, as the Crown considered customs duties – the main source of taxation – as its personal income, it did not commit to spending customs revenues on the protection and expansion of the merchant fleet – as the States General in Holland had to do (cf. Veenendaal, 1994).

<sup>1090</sup> To students of English history, the term 'financial revolution' connotes a dramatic rise in public borrowing during the 1660s, coupled with a shift from short-term to long-term debt. Financiers' loans at high rates gave way to low-rate securities such as life or perpetual annuities, each of which was guaranteed by Parliament and funded

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by specific revenues. To enhance the popularity of these instruments, Parliament made the income free of tax. In 1694, holders of this new debt pooled their credits to form the Bank of England, which in turn began issuing its own interest-bearing shares. To prevent indebtedness from accumulating to unmanageable proportions, Parliament decreed in 1717 that redeemable annuities would either be reduced to a lower rate of interest or, if the holder preferred, redeemed from a sinking fund that was established at the same time (Tracy, 1985: 1)...this system of public borrowing, enabling England to spend on war out of all proportion to its tax revenue, which best explains why Britain prevailed against a larger and wealthier France during the long series of wars from 1689 to 1815 (Tracy, 1985: 1-2). Though state annuities were new to England in the 1690s, proponents of the new system drew consciously on long-established precedent in the Dutch Republic, just as critics were quick to observe that 'stock-jobbing' of this particular kind had never been heard of before England acquired a Dutch sovereign in 1688 (cf. Dickson. 1967: 8-9, 17, 51; Tracy, 1985: 2).

<sup>1091</sup> During and after the Revolution, there existed a fear amongst the English elites that with the Revolution the Dutch had found an effective means to finally settle in their favour the age-old conflict between themselves and the English for mastery of the world's trade. So, Pamphleteers such Robert Price concluded that the events of 1688-89 had produced a revolution in England that far from being 'glorious', was humiliating, disruptive, and economically ruinous. "We shall be supplanted by our neighbours and become a colony to the Dutch" (Price, 1702: 102; cited in Israel, 1997: 360). Nevertheless, in financial and military terms, the power of the British state expanded spectacularly in the years after 1688. By the time of the War of the Spanish Succession (1702-13), Britain had emerged as unquestionably the strongest of the powers ranged against the might of France and Bourbon Spain. The Dutch Republic increasingly played a subsidiary role, especially at the sea and outside Europe.

<sup>1092</sup> It also facilitated substantial changes to England's foreign policy – supported by the upgrade in expenditures on the army and navy.

<sup>1093</sup> As O'Brien (2001) notes, it stood in even starker contrast with the 'negotiated' imposition of taxes on the ancient Spanish kingdoms of Aragon, Valencia and Catalonia, the fiscal relations between Austrian Habsburgs and Bohemia, the privileged positions occupied by Hungary and other parts of that Empire, the status of Pays d'État within Bourbon France, and finally the special position of Norway within the kingdom of Denmark.

<sup>1094</sup> Another peculiarity of the British system is that the tax revenues required to service a national debt in service of naval, imperial, commercial and industrial purposes emanated in very large part from indirect taxes, most notably excise and customs duties.

<sup>1095</sup> The combination of policies represented by the Navigation Acts, a strong navy, and protectionism resulted in Britain's capturing gains from trade as well as achieving fruitful import substitution (Ormrod, 2003).

<sup>1096</sup> Arguably, the first Dutch War was a watershed in English history. In contrast with the early Stuarts' foreign policy dynastic motives, the war against the Dutch was mainly waged for commercial-political purposes.

<sup>1097</sup> The Long Parliament held from 1640 until the Restoration in 1660. It was summoned by Charles I after his defeat in the second Bishops' War.

<sup>1098</sup> The penal laws were a series of Acts passed between 1571 and 1593, introducing penalties, ranging from proscription of worship to disqualification from office, for those who refused to attend Church of England services. These were extended in 1606 and 1610, but the penal laws were implemented, according to the temper of the times, with varying degrees of strictness. Repeal occurred gradually with successive Toleration Acts.

<sup>1099</sup> In England, the Acts stipulating that public office holders must take Holy Communion in the Church of England (1673) and excluding all Roman Catholics except the Duke of York (later James II) from parliament (1678). The Test Acts were only repealed in the mid-19th century.

<sup>1100</sup> Before the end of the English Revolution, court apologists were intensely statist and, in their most extreme form, might seek to emulate a continental European monarchy. Country spokesmen expressed strong suspicion of government, might even at times seem isolationist in foreign policy, and preferred to rely upon local resources and institutions for the preservation of domestic order...After the Glorious Revolution the English Court finally abandoned the persecution of dissenters for limited toleration, and it accepted a permanent role for Parliament in the governance of the realm. But in other respects its goals after 1688 merely continued, intensified and extended the policies of Charles II and James II. William III and his successors still sought the means to restrain opposition at home and to conduct a vigorous foreign policy against French expansion - a standing army, a huge navy, ample revenues to wage war despite the inevitable disruption of trade and customs duties, a reasonably effective bureaucracy and increased patronage. The Country opposition, staunchly Whig in the 1680s, preferred a militia to a standing army, limited revenues, small government dependent on the voluntary cooperation of the gentry, and place bills and frequent elections to prevent Court patronage from corrupting the House of Commons (Murrin, 1980: 379-380).

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<sup>1101</sup> In seventeenth-century England, the distribution of governing power beyond the king, the landowners and to a minor extent the merchants was hardly an issue. In fact, the governing order was seen as being composed of various sectional interests, which together made up a national interest. Interests were not classes, however, since they were vertical rather than horizontal fissures in society. Thus the landed interest held together all those involved in the agricultural sector, from the greatest landlord to the poorest labourer (Speck, 1988: 249). Instead of vying for political voice, the “great functional interests” lobbied for patronage of their particular policies. In so far as economic questions entered politics, it was via these “interests”: the various trades, industries, and professions, considered as hierarchies within the general hierarchy of society, and representing through their leaders all levels of society from the squire, great merchant...down to the humblest labourer. The landed elite was the predominant “interest” in this paternal hierarchy. Everyone dependent on them, was bound to follow the landowners’ religion: Anglicanism. Only those groups who were not dependent on the landed elite for employment, tenancies, or patronage in the form of preferment, government contracts, or the purchases of their wares or services, could afford the luxury of dissent from the landlords’ religion (Perkin, 1989: 29-34). Prohibited by law to enter political office, many dissenters tried to excel in another interest: as merchants in the monied interest.

<sup>1102</sup> The majority of both Whig and Tory politicians in the eighteenth century were landowners. Still, the two factions were composed of quite different economic and regional groups. So, Whig support tended to be drawn from the aristocracy and large landowners in general, while Tory support tended to be drawn from the gentry and smaller landowners...Tory support was drawn from more peripheral regions of the country, while Whig support was more likely to be drawn from the home counties (Stasavage, 2003: 109-110).

<sup>1103</sup> Originally an Irish name for a Roman Catholic outlaw, it was applied in 1679 to the political group that, in opposition to the Whigs, supported the succession to the throne of the Roman Catholic Duke of York. The Tories became the Conservative Party under Peel in the 1830s. The Tories are generally associated with the purposes of the lower country gentry, merchants and Anglicans.

<sup>1104</sup> Contrary to the notion of revolution associated with the 1789 French Revolution.

<sup>1105</sup> While supplying private benefits at public expense now required co-operation of the Crown, Parliament and the courts, remarkably, it was still only the Crown that could propose and set the purposes of expenditures. Parliament could only authorize and appropriate funds within this purposive framework.

<sup>1106</sup> The Whigs, in their capacity of moderators rather than leaders of popular movements, from the Glorious Revolution onwards have been depicted as the “connecting link” between “advanced party [politics] and those classes which, possessing property, power and influence, are naturally averse to change.” (Jenkins, 1988: 7).

<sup>1107</sup> Legislature serving the « commonwealth » at large: members of parliament must be independent representatives and not delegates under instruction from their constituents or from any special interest group

<sup>1108</sup> The British political system adopted a first-past-the-post electoral system which does not favour third parties.

<sup>1109</sup> This assumption translates in the assumption that the parliament has supremacy over popular opinion, except during elections.

<sup>1110</sup> Up to the nineteenth century, “property in office” was considered a safeguard against any royal pretensions to absolutist control over the administrative system, and the virtual sacralisation of property in the eighteenth century made it difficult to deny an office-holder the vested ‘right’ to his office, even for the sake of administrative reform (Harling, 1996: 22). Still, the notion of property in office in the spirit of the academic tenure system. This system allegedly functions as a safeguard against monopoly and arbitrariness, and a stimulant to freedom of expression and mobility of ideas.

<sup>1111</sup> This representation came in two ways. First, the assumption was that the monarchy, the House of Lords and the Church of England represented every righteous Englishman. Second, public office was considered an historical “right” and duty” for the established ranks.

<sup>1112</sup> The Republican image of a Commonwealth, as loosely associated with Cromwell’s 17th century experiment, embodies a tradition that values wealth, but also the common good (Pincus, 1998 : 708). In addition, it conveys the image of direct representation of the people (Alborn, 1998).

<sup>1113</sup> Originally an abusive Scottish name for a horse thief, the term “whig” was later applied to Scottish Presbyterians and from 1679 to the emerging political group that, in opposition to the Tories, wished to exclude the Roman Catholic Duke of York (later known as James II) from the succession.

<sup>1114</sup> The holders of the funded long-term national debt - mobilised by the government - came mostly from London and its environment. Within the metropolis, the majority of larger individual investors were merchants and financiers. Of this majority many, especially in William and Anne’s reigns, were of recent foreign origins or were self-made men (Horwitz, 1987: 173; Dickson, 1967).

<sup>1115</sup> A link between money and national wealth based on the reality of territorial customs, State taxation and legislation.

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<sup>1116</sup> The above distinction can be mapped on the opposition between two more contemporary theories of money: monetarism and chartalism. Contary to monetarism, chartalism portrays money as the product of existing custom and legislation, a symbolic means that can be controlled to some extent by a central state and/or local governments within a national territory (e.g. Muller, 1816; Knapp, 1924).

<sup>1117</sup> Plato is sometimes portrayed as the first proponent of the Chartalist theory of money. For Plato money comes into being only once a society has organized itself along continuous market lines, and social custom and legislation give money a unique symbolic importance in a system of real exchange – where "goods trade for money and money trades for goods, but goods do not trade directly for goods" (Clower, 1965). Aristotle, on the other hand, can be seen as a predecessor of metallism and even monetarism, with his insistence that money is not just a veil, but a commodity in its own right – "if money is going to be used in the market of commodities as a medium of exchange, it must itself be one of these commodities" (cf. Schumpeter, 1954, *History of Economic Analysis*).

<sup>1118</sup> Whigs were careful to point out that subjects had no right to use force in order to resist minor or isolated examples of injustice. And subjects certainly had no right to overturn an established government simply because they wished to set up a better one (Dickinson, 1981).

<sup>1119</sup> England officially remained a confessional state until the late 1820s when finally the laws that limited the civil rights of Protestant dissenters and Catholics were repealed (Clark, 1994: 141-217; Spaans: 75-76).

<sup>1120</sup> To illustrate the continuing relevance of Tory traditions, it suffices to point at the outrage of the Tory press, politicians and civic groups such as the Bruges-group over the possibility of a written European constitution.

<sup>1121</sup> For instance the Whigs disagreed sharply with the radicals that all men had a natural and inalienable right to influence and shape the legislative and executive functions of the State. While they acknowledged that the people had the right to good government they denied that this meant that they must have self-government." (Dickinson, 1981: 34)

<sup>1122</sup> Gilmour (1978 : 143) "the fundamental concern of Toryism is the preservation of the nation's unity".

<sup>1123</sup> The Tory tradition holds that the Anglican Church, as a bulwark against both Catholicism and Nonconformity, is the protector of the English constitution (cf. Southey, 1824).

<sup>1124</sup> "Public spirit" was a key concept in Tory Country thinking. It can be defined as devotion to the common good of the patria, the disposition to disregard devotion to the common good of the patria, the disposition to disregard self-interest and sectional advantage for the sake of national interest (Harris, 2002).

<sup>1125</sup> The East India Company had the unusual distinction of ruling an entire country. Its origins were much humbler. On 31 December 1600, a group of merchants who had incorporated themselves into the East India Company were given monopoly privileges on all trade with the East Indies. The Company's ships first arrived in India, at the port of Surat, in 1608. Sir Thomas Roe reached the court of the Mughal Emperor, Jahangir, as the emissary of King James I in 1615, and gained for the British the right to establish a factory at Surat. Gradually the British eclipsed the Portuguese and over the years they saw a massive expansion of their trading operations in India. Numerous trading posts were established along the east and west coasts of India, and considerable English communities developed around the three presidency towns of Calcutta, Bombay, and Madras. In 1717, the Company achieved its hitherto most notable success when it received a firman or royal dictat from the Mughal Emperor exempting the Company from the payment of custom duties in Bengal. The Company saw the rise of its fortunes, and its transformation from a trading venture to a ruling enterprise, when one of its military officials, Robert Clive, defeated the forces of the Nawab of Bengal, Siraj-ud-daulah, at the Battle of Plassey in 1757. A few years later the Company acquired the right to collect revenues on behalf of the Mughal Emperor, but the initial years of its administration were calamitous for the people of Bengal. The Company's servants were largely a rapacious and self-aggrandizing lot, and the plunder of Bengal left the formerly rich province in a state of utter destitution. The famine of 1769-70, which the Company's policies did nothing to alleviate, may have taken the lives of as many as a third of the population. The Company, despite the increase in trade and the revenues coming in from other sources, found itself burdened with massive military expenditures, and its destruction seemed imminent. State intervention put the ailing Company back on its feet, and Lord North's India Bill, also known as the Regulating Act of 1773, provided for greater parliamentary control over the affairs of the Company, besides placing India under the rule of a Governor-General.

The first Governor-General of India was Warren Hastings. Under his dispensation, the expansion of British rule in India was pursued vigorously, and the British sought to master indigenous systems of knowledge. Hastings remained in India until 1784 and was succeeded by Cornwallis, who initiated the Permanent Settlement, whereby an agreement in perpetuity was reached with zamindars or landlords for the collection of revenue. For the next fifty years, the British were engaged in attempts to eliminate Indian rivals, and it is under the administration of Wellesley that British territorial expansion was achieved with ruthless efficiency. Major victories were achieved against Tipu Sultan of Mysore and the Marathas, and finally the subjugation and conquest of the Sikhs in a series

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of Anglo- Sikh Wars led to British occupation over the entirety of India. In some places, the British practiced indirect rule, placing a Resident at the court of the native ruler who was allowed sovereignty in domestic matters. Lord Dalhousie's notorious doctrine of lapse, whereby a native state became part of British India if there was no male heir at the death of the ruler, was one of the principal means by which native states were annexed; but often the annexation, such as that of Awadh [Oudh] in 1856, was justified on the grounds that the native prince was of evil disposition, indifferent to the welfare of his subjects. The annexation of native states, harsh revenue policies, and the plight of the Indian peasantry all contributed to the Rebellion of 1857-57, referred to previously as the Sepoy Mutiny. In 1858 the East India Company was dissolved, despite a valiant defense of its purported achievements by John Stuart Mill, and the administration of India became the responsibility of the Crown.

<sup>1126</sup> With few exceptions the numerous Bank of England and East India company directors who served after 1715 were supporters of the Whig government (Sedgwick, 1970: 71).

<sup>1127</sup> One of the major victories of the Whigs had been to secure common law control over the development of commercial law, this to strike down the tariff and monopolistic special privileges associated with Crown prerogative that were disrupting external trade in the face of fierce Dutch competition (North and Thomas, 1972: 147-148). Through the leadership of Coke existing property rights were safeguarded in a body of impersonal law. By initiative of the Whigs, the alliance of parliament with common law was cemented. As the independence of the courts limited potential abuses by both Parliament and the Crown, the credibility of the English financial system with regards to the repayment of loans etc. improved substantially (North and Weingast, 1989: 818-819), so as to raise the availability of funds and their market price.

<sup>1128</sup> Under Walpole, government had become a system of corruption...The revolution in public finance in the later seventeenth century had both expanded the opportunities for corruption and laid the basis for the impoverishment of the bulk of the population. The high levels of taxation required to fund this debt, especially in the form of duties on consumer goods and trade, not only expanded the size and influence of the revenue departments, a powerful source of government patronage, it also depressed the wealth of the population and rendered it more susceptible to corruption. Corruption was denuding the wealth of the nation, as well as undermining its virtue and liberties (Harris, 2002: 70). There was a crisis of "public spirit" – a key concept in Country thinking – defined as devotion to the common good of the patria, the disposition to disregard self-interest and sectional advantage for the sake of national interest.

<sup>1129</sup> The heterogeneous composition of the Whig party – aristocrats mixed with dissenters and foreign merchants – was frequently criticized by Tory writers such as Jonathan Swift: "For I do not take the Heads, Advocates, and Followers of the Whigs, to make up, strictly speaking, a National Party; being patched up of heterogeneous, inconsistent Parts, whom nothing served to unite by the Common Interest of sharing in the Spoil and Plunder of the People" (Swift, 1711: *The Examiner*, 35, April 5; cited in Stasavage, 2003: 110).

<sup>1130</sup> After its foundation in 1694, an important function of the Bank of England was to manage the government's funded debt. This funded debt was essentially comprised of a large number of loans made by individual and corporate investors to the government who offered an agreed rate of return. The national debt was an important pillar of John Brewer's celebrated notion of the eighteenth-century fiscal-military state. As Martin Daunt (2001) has recently noted, the size of the national debt remained substantial until the end of the century and was as much a source political concern as it was a focus for personal investment.

<sup>1131</sup> Among directors of the Bank of England during the period 1694-1715, thirty were Whigs, while only three were Tories. Likewise, among shareholders of the Bank, Whigs outnumbered Tories by two to one (Stasavage, 2003: 111).

<sup>1132</sup> The first group of Bank of England Governors in 1694 swore they would maintain "the Body Politique or fellowship of the Governor and Company of the Bank of England and the liberties and privileges thereof". Chosen from "the most able and wealthy Citizens of London", the first group of Directors, in its turn, swore to be "indifferent and equal to all manner of persons" in their advice and assistance (Acres, 1931: 13-14; Hennessy, 1995: 185).

<sup>1133</sup> The goldsmiths and money-lenders, for their part, foresaw a serious diminution in their profits if they had to compete with so powerful a Corporation. In the course of its progress through the House of Commons, several amendments were made to the Bill. On the one hand, to appease the Whigs, who feared that the monarchy would become practically independent of Parliament if the King were free to borrow money from the Bank, the Corporation was prohibited from lending money to the Crown or from purchasing Crown lands without the consent of Parliament. On the other hand, to quiet the apprehensions of the old merchants the Corporation was forbidden to trade in 'goods, wares of merchandise' (Acres, 1931: 10).

<sup>1134</sup> The connection between London's "monied interest" and its well-entrenched Dissenting community heightened Tory distaste for the Financial Revolution and helps to explain the Sacheverell riots (Horwitz, 1987: 173).

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<sup>1135</sup> Goldsmiths de fact invented a new banking system tied to a “debt” form of money instead of the “commodity” of earlier forms of money. The former form of money is based on a promise for a future transaction – e.g. redeeming a banknote into gold. The latter is based on the credibility of the purported value of a commodity.

The debt form of money provided by goldsmiths became so popular that it soon gave rise to an entirely new set of institutional arrangements in England (Sayers, 1967).

<sup>1136</sup> Their religious community feelings, symbolized in the Quaker meeting house or the Nonconformist chapel facilitated the construction of a network of mutual borrowing and lending.

<sup>1137</sup> Although the relatively unadapted “old squirearchy” was gradually sold out of its property (Habakkuk, 1940).

<sup>1138</sup> Initially, the currency most prone to debasement, silver, remained more popular than gold, as in Continental Europe. Also, the reality of this de facto standard would only become recognised legally in 1774, when the English State recognised gold as legal and common money (Braudel, 1973: 345).

<sup>1139</sup> These country bankers emerged from the Quaker networks and more established groups like country attorneys or collectors of government revenue (Pressnell, 1956).

<sup>1140</sup> The success of this four-party cooperation would inculcate a resilient tradition of “sound finance” in the English financial system. Summarised quickly, this tradition entailed that while country bankers act as middle-term deposit and cash service intermediaries – often through the proxy of local paper notes, London bankers provide liquidity-enhancing bill-brokerage facilities. In cooperation with the London Stock Exchange, the “international” financial centre since the downfall of Amsterdam, the Bank of England, finally, acts as the long-term stabiliser of this system by providing three services. First, it ensures the liquidity of the entire system by discounting the bills of London bankers. Second, the Bank’s gold reserves provide both an exchange standard for transforming local paper notes into (inter)nationally recognised bills, and a last-resort option to bankers threatened by inflationary or deflationary pressures. Finally, while officially being private actors, especially the Bank of England, but increasingly also the London Stock Exchange, established their “public”, third-party reputation, by providing a “sound money” link between the challenger private credit network – local and international – and the growing public debt.

<sup>1141</sup> Instituted as a joint stock company, the Bank of England was established by Parliamentary charter in 1694: though being a civil society institution, the Bank was created by explicitly political legislative acts and charged with public duties. The Bank of England was founded as an explicitly temporary institution, which could be dissolved upon one year’s notice after the eleven-year life guaranteed by its initial charter had passed. The charter was renewed nine times between 1694 and 1844. On advice of the Treasury, parliament made life easy for the Bank of England. So, the issuing of the 1708 Act, which stated that no banking concern could consist of more than six partners, and the passing of the Bubble Act in 1720, ushered in a period of monopoly of joint-stock banking for the Bank of England. As a result, by 1750, the Bank of England had achieved an impregnable position in England. Outside London there were only a handful of banks. That this monopoly was not beneficial to the growth of either private banking, joint stock banking or industrial investment has of course been amply argued (cf. Cameron, 1967: 20; Warren, 1903: 23).

<sup>1142</sup> For instance, George I’s speech from the Throne of Parliament in 1721 stated bluntly that the prime purpose of government policy should be “extending our commerce, upon which the riches and grandeur of this nation chiefly depend” (Stone and Stone, 1984: 420). The landed elite therefore were willing to build a massive navy with the purpose of opening up markets to English enterprise. Not surprisingly, traders and manufacturers of all kinds were always prominent supporters of the existing authority structure. On the one hand, domestic traders relied on it for maintaining the good order that made commercial and credit transactions feasible. On the other hand, overseas merchants required its naval protection on dangerous sea routes. Thus, one of the reasons for the remarkable continuity of the predominance of aristocrats and landowners might well be their willingness to govern in the interest of bankers and overseas merchants.

<sup>1143</sup> “[England] created a new banking system that originated, in contrast to the rest of Europe, in domestic trade, largely in domestic products...in a ‘metropolitan market’ centered on London” (Ellen Meiskins Wood, 1999: 99).

<sup>1144</sup> Down to 1815 manufacturers’ demands for protection and export markets were met not so much by deliberate structural change of the policy establishment, but by incremental adjustments to economic policy. In fact, industrial protection by and large was a side-effect of the raising of revenue by government. During the decades after 1689, it was secured alongside the success of fiscal policy for at least three reasons. First, after 1689 war demands induced taxation needs on an entirely new scale (taxation never reached two millions before 1688; in 1786 it was fifteen millions). The new relation between Crown and Parliament made possible a new taxation regime. Second, there was, of course, the nationalism-rousing rivalry with the great power France (Davis, 1966: 317). Third, the louder political voice of a number of industries such as the linen and silk industries, reared to maturity under protection (Davis, 1966: 316).

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<sup>1145</sup> The combination of protection and laissez-faire thus had a downside for the landowners. So as to protect themselves best from past encroachments, the great landowners had created the constitutional pre-conditions – personal liberty, absolute security of property, minimum political intervention in economic affairs, and adequate protection from foreign competition – best suited for generating a spontaneous industrial revolution. In fact they did more than this. They helped to create the preconditions in agriculture, mining and transport for the take-off of industrialism. Because of the fear of government interference in internal affairs, landowners denied the State any permanent standing army or effective professional police. Instead, they preferred to rely on their own historical authority and the continued deference of the lower orders for the defence of their property and status.

<sup>1146</sup> The high Anglican clergy struck up a successful alliance with the natural scientists, to promote a brand of low-keyed latitudinarian Protestantism, which was congenial to and supported by both Newtonian cosmology and the capitalist ideology of the new commercial elites. The Dissenters were also evolving into nonproselytizing Unitarians, with close ties to the power structure through their connections with the Low Church episcopacy and their influence on City government, banking, and overseas commerce. Once this rapprochement became evident, the possibility of peaceful cohabitation became a reality that most people could accept. The flames of religious zeal, and hence of animosity between Church and Dissent, died down. The Anglican clergy were distracted by the quest for place and patronage and were anyway fearful of a growing anti-clericalism among the laity, expressed most visibly by the Mortmain Act of 1736 (Stone, 1980).

<sup>1147</sup> The old Anglican theories could not withstand the new realities of the rising monied ranks in a world of business enterprise. Clearly, this transformation of Anglican faith to the realities of a new economic regime was not sudden, as for instance associated with the break with Rome in 1535. Rather, it was gradually formulated under the wing of reformed faith so as to increasingly make “business enterprise the star to which Protestantism hitched its economic bandwagon” (Richards, 1929: 212-213).

<sup>1148</sup> Though the leading traders were Dissenters, they more than other Britons had reasons to remain loyal to the construction of a stable identity of Britain as a Protestant nation. The ruling Whig leaders stood for tolerance (Tawney, 1926).

<sup>1149</sup> Marwick invented the concept “secular Anglicanism” to describe the lack of extremity of feeling in England to be found between Catholics and anti-Catholics in France and Italy, among Lutherans and Calvinists in northern European countries, and in the Bible belt of the United States, as also in Ireland and parts of Scotland (Marwick, 1996: 10).

<sup>1150</sup> Local government continued to enjoy considerable autonomy from central control and interference. Local men resented the idea that central government should interfere in their affairs. The government might decide who should be appointed to a local office, but once appointed, that official should be left alone. With the establishment of the Whig supremacy in the 1720s the wholesale political dismissals from the bench which had disfigured local government in the previous years came to an end. Central government became less preoccupied with local administration...the Justices of the Peace, drawn overwhelmingly from the gentry, governed England in the localities (O’Gorman, 1997: 136). The influence of corporate towns, which originally had enjoyed an open franchise for elections to these corporate offices, but whose democratic status by the eighteenth century had declined to one of a self-perpetuating oligarchy, increasingly fell under the influence of local, rural magistrates. London was exceptional in enjoying an open franchise of over 12,000 electors, with the mercantile, craft, retailing were well represented in the Court of Common Council. The Court of Aldermen, representing the great monied interests, was elected for life; it had close ties with the government’s funding requirements while the Common Council flirted with popular Toryism and resistance to the financial oligarchy of the City (O’Gorman, 1997: 138).

<sup>1151</sup> There were two types of schools in the pre-Victorian era. Public schools, the oldest form, were endowed schools owing to pious founders of various types: in the early days bishops and churchmen, after the Reformation yeomen, merchants or noblemen. The most prestigious endowed schools were called “public schools”, because they were founded by royalty as early as 1382 (Winchester) and 1440 (Eton). From the very beginning these latter schools were for the better-off. Other public schools originally were grammar schools set up by town or village natives or by guilds; others by cathedrals for their choir. For the local education of those in need of financial assistance. After a while these grammar schools converted in boarding schools which drew pupils from all parts of the country, mostly the sons of wealthy parents (Barnard, 1947: 12-13).

<sup>1152</sup> When after the Revolution, the decision was taken that Parliament would meet every year and elections would be held regularly, the political investment of a seat in Commons became more secure and financially rewarding. Tories and Whigs started vying with one another for control over the electorate and a myriad of related jobs and freeholds. After a short period of party strife – in which electioneering was enhanced up to a point that only the richest men could afford it, an oligarchic system of political patronage developed that dissolved overly antagonistic party feelings. Through the political patronage system, the aristocracy ensured that, on the one hand, parliamentary majorities would stay aligned with the government, and, on the other hand, local

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constituencies would be effectively co-opted. The civil service was a firm part of this patronage system, as exemplified by the expansion of the Treasury department. The Treasury had been established in 1612 to collect and manage public revenues and coordinate national economic policy. Between 1689 and 1715 it expanded enormously to impose its control over all previously independent agencies concerned with revenue and taxation. The Treasury emerged as a central agency, coordinating not only the financial system as a whole but also the dispensation of the government's patronage. To understand how central an agency the Treasury was, it suffices to observe how, by the middle of the eighteenth century, parliamentary cabinets managed the majorities in Parliament through the pensions and jobs at the disposal of the Treasury. Even at the provincial level, it was the steady flow of favours coming from the center that enabled county and borough patrons to control their electorates.

<sup>1153</sup> This mobility was not to be found so much into the highest ranks though. The myth of England being a nation with an exceptional upward social mobility into the highest ranks (see for instance Perkin, 2002), has been amply debunked (cf. Stone and Stone, 1984: 402). More recent research has shown that, while the volume of upward social mobility has turned out to be far less than expected, those who did manage to move up were rarely successful business men. Most of the newcomers were rising parish gentry, officeholders or lawyers, i.e. men from backgrounds quite similar to those of the existing county elite.

<sup>1154</sup> Inequality in England, a potential antagonising class factor, for a long time was mitigated by a wide diffusion of wealth. The middle ranks were distinguished at the top from the gentry and nobility not so much by lower incomes as by the necessity of earning their living...at the bottom from the labouring poor not so much by higher incomes as by the property, however small, represented by stock in trade, livestock, tools, or the educational investment of skill or expertise (Perkin, 2002: 22-23). According to Samuel Johnson, the English were "a people polished by art, and classes by subordination", by the "fixed, invariable external rules of distinction of rank, which create no jealousy, since they are held to be accidental" (Perkin, 2002: 25). In terms of income inequality, the Gini coefficient of inequality rose from .468 in 1688 to .487 in 1759, .519 in 1801-3, .551 in 1867 for England and Wales (and .538 for the UK), then declined to .520 in 1880 and .502 in 1913 (Rubinstein, 1986 : 66).

<sup>1155</sup> As in continental countries, in England urban guilds sought to control entry into the particular craft or trade, limit competition and uphold customary standards of reward and status. At the height of their powers, in the late medieval period, English guilds were more than legalised closed shops, however. As guilds were constituted by popular assemblies, legislatures, courts and executives, their authority was akin to legalised governments. Guilds even had the authority to enforce fines and imprison those violating guild rules (Commons, 1924: 225). Obviously, this would not have been possible without the fiat granted by Tudor governments, eager to uphold the motto "No man without a lord" and the paternalistic structure of reciprocal obligations of protection and obedience. Despite this government fiat, already by the beginning of the sixteenth century guild authority was in decline. In face of the quickening of trade and production, tradesmen began to follow the example of clothmakers by moving to rural areas where economic life was comparatively unregulated. Tudor governments reacted to this escape with the 1563 statutory rules on apprenticeship and related issues. The local justices and town authorities were now required to make annual assessments of the wage rates so as to better regulate them. Unlike some Continental counterparts, the English government did not seek to rejuvenate the guilds. Rather, in its attempts to limit the spread of industry to the rural areas it gave the crucial powers of jurisdiction to local justices. These local justices, however, were more concerned with maintaining local employment and order than paying tribute to central, urban concerns and formal apprenticeship rules. Indeed, individual employers who sought to bypass monopolistic regulation often found a powerful ally in English common law, the framework for local justices. All these elements combined allowed the forces of "possessive" or "market individualism" – already firmly in place in the thirteenth century (Macfarlane, 1978) – to gain the upper hand over the forces of paternalism. Indeed, by the end of the sixteenth century the English policy establishment differentiated itself from its continental counterparts by its general emphasis on and acceptance of individual property (Fox, 1985: 7-15).

<sup>1156</sup> In England, 18th century economic "laissez-faire" reformers successfully pressed their claims in parliament to "improve" unproductive farm land by enclosing them and thus submitting them to the laws of private property. They achieved this not only thanks to the influence of major private landowners, but also because the development of "scientific" techniques like the "horse-hoing husbandry" made their claims practicable. The spirit of improvement – as concretized not only in Enclosure acts, but also in the New Poor Laws – in very real terms led to the marginalisation and pauperisation of tenant farmers.

It is often held that the main driving force behind the movement from agricultural small tenancy to industrial proletariat was the enclosure movement. Yet, at least two more factors influenced this movement. First, the growth of new industries stimulated the increase of population in rural areas – population trebled between 1750 to 1850. In fact, the agricultural population, in spite of its relative decline vis a vis other sectors, continued to grow in absolute terms until 1851. Second, the finding that industrial employment meant higher wages for many

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agricultural labourers puts in perspective the claim that enclosures were the product of “exploitative” landlords. As Tawney remarks (1926: 64): “It was not the lords of great estates, but eager and prosperous peasants, who in England first nibbled at commons and undermined the manorial custom.” In fact, the more “prosperous peasantry...were rearranging their strips by exchange or agreement” concurrently with “lords, no longer petty sovereigns, but astute business men” who “were leasing their demesnes to capitalist farmers” (Tawney, 1926: 117). These tendencies were most clear in the southern part of England, in the neighborhood of the London metropolis. Out of fear of Nonconformist encroachment, the Anglican Church had systematically enforced its parochial system in the south, the southern Midlands and the south-east, especially in the agricultural regions. As a result, capitalist farmers and labourer-peasants alike had for the most part remained true to Anglicanism. In alliance with the “landed interest”, Anglicanism had grown stronger in agricultural areas than among more urban populations engaged in manufacturing or commerce. This strategy was effective until 1740; until then it was in these first areas that the bulk of the population lived. After 1740, however, the urban-rural balance gradually tilted in favour of urban settlement. The population engaged in non-agricultural or agricultural-industrial occupations had risen from around 20 percent at the end of the seventeenth century to over 50 percent by the beginning of the nineteenth century, and to over 70 percent in 1831. Where the population of predominantly agricultural counties had more than doubled between 1701 and 1831, the population in predominantly non-agricultural industrial counties had tripled or quadrupled, due to the expansion of mining and manufacturing industries – cotton, iron and coal. As a result, the population balance had tended to be transferred from agrarian to manufacturing and industrial areas, and from southern and south-eastern England to the Midlands and the north. Yet, it was precisely in these areas that the parochial system was poorly established and ill-equipped to the new needs of pastoral guidance (Gilbert, 1976: 110-112). Nonconformism thrived especially in those northern counties where there was a boom of domestic industry and small-scale industrial settlements, as amongst the handloom weavers, which number increased from 50,000 in 1769 to 240,000 in 1820.

For three hundred years, until the beginning of the nineteenth century, common right was defended at the centre of government. Until then, agricultural writers who supported enclosures did not approve of it for the conversion of arable land to pasture or the loss of commons without full and proper compensation in land. Yet, in the early seventeenth century, the final withdrawal of official resistance to enclosure followed: the last Inquisitions of Depopulation were held in the 1620s (Martin, 1982). What distinguishes the period from the mid seventeenth century to the 1790s is the development of a public argument in favour of enclosure even when it did cause local distress (Neeson, 1993: 18-19). Basically, the critics of commons wanted to raise productivity and infuse a spirit of “improvement” in the supply and quality of labour. According to them, common right stood in the way of modernisation.

<sup>1157</sup> In fact, critics of commons wanted to improve society as well as agriculture: they wanted to change the structure of rural England. Regarding liberalism as an antidote to authoritarianism and paternalism in all spheres of life, they used the “rhetoric of the free market” so as to give the moral implications of improvement “a polemical and persuasive force” (Coats, 1972: 133). The critics laid the groundwork for their victory in the 1760s when they began to adopt the national interest argument of the defenders of commons in conjunction with the free trade argument. So, they increasingly promoted the subordination of individual property rights to the national interest and accused commoners of selfish individualism. Stating that agriculture’s role in promoting the national interest foremost was to ensure an adequate supply of food they defined defenders’ concern for the rights of commoners as hostile to the English national identity. At the same time they began to transfer the defenders’ descriptions of commoners as honest, hardworking and available to the future agricultural proletariat (Neeson, 1993: 44-46). During the 1790s a new pamphleteer had caught the ear of Parliament: the Reverend Thomas Malthus. In 1798 he argued against giving outdoor relief to the poor; in 1803 he argued against giving them land. Malthus stated that giving land to the poor would lead to more poor relief, not less. His appeal further explains the failure of defenders and critics of commons to persuade Pitt of the value of compensated enclosure. A newer ideology than improvement sealed the fate of nineteenth-century commoners (Neeson, 1993: 51-53).

<sup>1158</sup> Evangelical nonconformism again played a crucial role in this process. As succinctly, but misleadingly phrased by Thompson (1977: 412), the New Dissent embodied in Methodism became the “religion of both the exploiters and the exploited”. Apart from the purpose of gaining salvation, both prosperous merchants and factory operatives became Nonconformists as a means to symbolically reject the mores and values of a social system which ascribed status largely in terms of inherited advantages of landed wealth and family background (Gilbert, 1976: 83-84). Between 1740 and 1820 the majority of weavers had become deeply imbued with the doctrines of Methodism (Guest, 1823: 38).

<sup>1159</sup> ‘This city’, or the ‘city of London’, to ‘the City’ tout court, in the sense of London business, can be observed as early as 1621 in the debates of the Parliament (Tawney, 1958: 75, note 1).

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<sup>1160</sup> The Corporation and people of London, too proud to be subservient, were traditionally in opposition to Government ; their wealth and concentration of population at the doors of Parliament and Ministers, made them, when roused, a great power, especially as the City had the traditional privilege of presenting its petitions at the bar of the House of Commons and the right of petitioning the King in person (Read, 1964: 4). London was the commercial and industrial centre of the nation, its literary and journalistic centre...the centre of religious dissent (one-fifth of its population being officially estimated in 1711 to comprise English Dissenters and French Huguenots), and the mob centre (Read, 1964: 4-5). Its economic predominance, linked to that predominance in population already noticed, was remarkable. The London market dominated the economy of the rest of the country...through London's port passed eighty per cent of all exports and forty-five per cent of all imports...With economic leadership went extra-parliamentary political leadership. 'The noble spirit of the metropolis is the life-blood of the state, collected at the heart: from that point it circulates, with health and vigour, through every artery of the constitution' (cited in Everett, 1927: 157 ; Read, 1964: 5).

<sup>1161</sup> In contrast, with the slow communications of the time...news of Acts of Government and Parliament and of response from the country was slow to circulate ...A network for the communication of provincial political opinion did exist, from the country gentlemen in their 'neighbourhoods' via the Justices of the Peace, local Members of Parliament, and the Lords-Lieutenant; but at times of crisis swift extra-parliamentary expression of opinion had perforce to be left to London. Thus in the Excise Crisis of 1733 London headed the unprecedentedly noisy popular agitation against Walpole's proposed extension of excise taxation to wine and tobacco. The inquisitorial powers of excisemen were traditionally hated by English people, and the cry went down from capital to country...that under the proposed new tax trade would decay, houses would be broken open by excise men and pillaged without redress, and that wives and daughters would be violated ; in short, that Englishment would be brought down to the level of Frenchmen. In this spirit London's anti-excise petition spoke to Parliament on behalf of the whole nation (Read, 1964: 5).

<sup>1162</sup> Although the City of London led extra-parliamentary opinion at this period, it was much influenced by Opposition politicians within Parliament. About mid-century, however, an important change took place as London began to adopt political attitudes independent of promptings from within Parliament. A great stimulus was given to the City's sense of independence by its support for the Elder Pitt and his successful policies during the Seven Years War ; when he left office in 1761 London returned to its traditional opposition role with a new sense of self-confidence (Read, 1964: 6).

<sup>1163</sup> Popular opinion in varying shapes had of course exerted a spasmodic influence upon affairs for centuries before this, going back at least to the Peasants' Revolt of 1381. It had played a vital part in the outbreak and course of the Civil War. Its most active centres in the Hanoverian period were the University of Oxford and , especially, the City of London (Read, 1964).

<sup>1164</sup> By 1750 the characteristic structure of English landownership was already discernible: a few thousand landowners, leasing out their land to some tens of thousands of tenant farmers, who in turn operated it with the labour of some hundreds of thousands of farm-labourers, servants or dwarf holders who hired themselves out for much of their time. This implied a very substantial system of cash-incomes and cash sales (Hobsbawm., 1968: 15).

<sup>1165</sup> "Unlike others (such as the Dutch)...[Britain's] economic aims were not completely dominated by commercial and financial interests, but shaped also, and increasingly, by the pressure group of manufacturers; originally in the fiscally important woollen industry, later the rest" (Hobsbawm, 1968: 33).

<sup>1166</sup> In spite of the modest wealth and influence of the budding industrialists: in 1760 the poorest merchants earned as much as the richest master manufacturers. Indeed, it is most peculiar that, while trade – especially overseas – seemed to be more lucrative and prestigious than manufactures, the purposes of domestic industry producers prevailed over those of commerce in the English establishment, mainly because merchants could only mobilize London and a few ports, while the manufacturers could count on large stretches of the country and of government. Where the interest of merchants lay in freedom to import, export and re-export, those of industry lay in protecting the British home market against foreigners while capturing export markets for British products. The prevalence of manufacturers ensured that British industry could grow up in a protected home market until strong enough to demand free entry into other people's markets, i.e. "Free Trade".

<sup>1167</sup> This was less the case in the southern alluvial provinces of the Republic.

<sup>1168</sup> After 1850, a social revolution took place. In industry, the family gradually ceased to be the unit of production. In addition, production and trade increasingly was catered to shopkeepers and other intermediaries, and not directly to families.

<sup>1169</sup> In fact, this attitude towards farmers did not change that much in the centuries to come, even in the twentieth century. So, when urban residents in the Netherlands in 1956 were asked to give an appreciation of the value of farmers, researchers found that: "If one describes the farmer as a human being in general, the result is a

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predominantly unfavourable image. If he is described as the working-manager of an agricultural holding, the result is a distinctively favourable image” (Stedeling en boer, 1957: 123). So, as a group of people embodying a particular life-style, farmers were stigmatized as backward, etc...In other words, urban residents were rather antagonistic towards farmers as incorporating a particular life-style, and separated their ideals of the perceived life-style of farmers. But, when positioned as instrumental in contributing to the fulfillment of Dutch prosperity in general – the good management of the Netherlands being the purpose shared by all populations –, and urban residents’ prosperity more specifically, farmers were perceived in a more positive way: urban residents were more willing to associate with farmers as working-managers.

<sup>1170</sup> As such, cleavages formed within the peasant class and capitalist relations developed in the countryside. “Some peasants owned much land, leased it other peasants, lent money and engaged in local trade. Other peasants owned nothing and found themselves economically dependent not upon noblemen, churchmen or their representatives but upon other peasants.” (DeVries, 1973: 55)

<sup>1171</sup> Of course, this attitude was workable only through the relatively independent, but still highly synergetic development of a “modern” infrastructure in the countryside. As mentioned before, this infrastructure mainly developed in the alluvial (northern) provinces of the Republic, where agricultural development was dependent on land reclamation from the sea. Since polder-making required large capital investments, investors demanded some kind of a guarantee that they would be able to reap the benefits. Yet, polder-making required some sort of cooperation between the many actors involved: merchants, the state, landowners and labourers (Van Zanden, 2002: 638). This had paradoxical effects on the resulting arrangements about property rights. On the one hand, a first form of private property in land was incorporated in the institutional arrangements of the Dutch provinces at least since the thirteenth century. From then on, formal commercial contracts governed the relationship between landowners and their tenants. Leases usually ran for a reasonably long period and were primarily concerned to protect the property from permanent changes that would reduce its intrinsic quality. On the other hand, these stipulations generally did not constitute a direct intervention in farm decision making by the owner. This is because, in contrast with England, in the Dutch Republic, formal contracts were accompanied by the maintenance of an informal concept of property rights in favour of the farmer tenants until well into the nineteenth century. The basis of this informal concept was the customary old Dutch law. This law did not define the owner’s property rights as absolute, but explicitly acknowledged the rights of tenant farmers, thus ensuring their continuity (De Vries and Van der Woude, 1997). As a result, small peasant owner-operators, with 7 to 10 acres, dominated the Dutch agricultural organisation (North and Thomas, 1973: 143).

<sup>1172</sup> The catalyst for the rise of Dutch industry and commercial agriculture was the ecological crisis of the later Middle Ages. “Dutch peasants were ‘pushed’ out of arable production for subsistence and into dependence on the market. Because such an unusually large part of the population was thereby impelled to purchase its means of production and means of subsistence, the size of the domestic market, was in potential enormous. Nevertheless, in view of the very low standards of living that must, at the start, have prevailed, the actually existing domestic market was necessarily restricted, all the more so since domestic agriculture was decreasingly able to supply bread grains, in the wake of the widespread decline of arable production with the subsistence of the peat. Dutch producers could not therefore avoid, from the first, and unusually high level of dependence upon *international* markets, both to dispose of their output and secure necessary inputs. ..The ability to successfully complete the cataclysmic transition from arable subsistence economy to market dependent, export oriented economy was very much facilitated by the spectacular growth of grain imports from the Baltic. From the end of the fifteenth century, prices for grain in the Northern Netherlands went from being the highest to being the lowest in Europe, as Amsterdam emerged as the central grain market in Europe...Cheap grain played an especially important role in enabling Dutch agriculture to successfully pursue its specialization for the world market in dairy production and cattle raising. ..by the seventeenth century, in an economy in which perhaps half the population was out of agriculture, Dutch non-agricultural exports were almost covering the full cost of grain imports” (Brenner, 2001: 330-331).

<sup>1173</sup> So, when the Dutch provinces became the depot of the Baltic trade from the fifteenth century on, they also gradually developed into a Western European commercial and manufacturing centre. Helped by the relative capital affluence in the Low Countries (mostly in the cities Antwerp and Amsterdam) and the absence of a landowning rank that was wary of industrial development, rural industry developed as a small-farmer strategy for greater prosperity. No major resistance arose against commercialization or specialization. As a result, the enclosure movement started at the end of the eighteenth century in the Netherlands, except for a few incidents in the diluvial (southern) provinces, was relatively consensual compared to England (cf. Sneller, 1951). At the end of the 18th century, a restructuring period started in the Dutch Republic. Where once Amsterdam was the largest staple market in Europe, competing staple markets like London and Hamburg started contesting its hegemony. In addition, European countries became increasingly mercantilistic and autarchic, which decreased the

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need for international intermediation through staple markets. Because of the decrease in international trade of goods the Dutch increasingly had to concentrate on other elements of their national economy: mostly agriculture, but also financial services. Since the upper ranks in the Dutch Republic derived their income mainly from non-agrarian sources like trade, banking, some industry, government services, and rentier capital, they did not have to increase the exploitation of the rural sector (for instance through enclosures) to secure their position in this restructuring period (Van Zanden, 1991: 55). As a corollary, the level of taxation on the agricultural sector, though rather high and rising until about 1840, in the longer run increased much less than total production, because other sources of taxation became of increasing importance to the State (Van Zanden, 1985: 192). In this way, the laissez-faire policy towards farmers continued in the nineteenth century.

<sup>1174</sup> The popularity amongst social liberals of Co-operative democratisation not in the least was due to its promise to reconcile improvement of the fate of the labour classes with a capitalist order, based on private property and a strict separation of the political and the economic. Participating in Co-operatives would not only entail stimulation by the market dynamic of labour wages, but also enable workers to profit from their shares in a communal enterprise. Liberals like De Witt Hamer and Goeman Borgesius propagated Co-operation as the road towards a more righteous and viable capitalism. Their argument that Co-operation would not interfere with private property, while resolving the “Social Question”, was received approvingly in most of the upper circles (Dudink, 1997). Through Co-operation workers would be transformed in careful, productive citizens. “If one says co-operation one also says: industriousness, moderateness, thrift, development, welfare” (De Witt Hamer, 1866: 211). Ultimately, Co-operation would serve as a preparation for full citizenship, culminating in the suffrage (106-107).

<sup>1175</sup> Surprisingly, because of the later antagonism expressed by protestants vis a vis consumer co-operatives.

<sup>1176</sup> Inspired by the Rochdale pioneers, the principles of this consumer co-operative and the ones to follow were: 1) open membership, 2) democratic control, 3) payment of the surplus to members in proportion with the purchases made (also known as the dividend rule), 4) sale for cash.

<sup>1177</sup> “As such the co-operative is not the cradle of the revolution, but the means to take away the reason for revolution” (Slotemaker, 9 may 1890, *Ons Belang*)

<sup>1178</sup> Already in 1866, De Witt Hamer made an inventory of the reason of the failures of co-operatives (mostly consumer, but also worker co-operatives): 1) started too fast with running a business; lacking sufficient capital, 2) workers live too scattered, not in one area, 3) a strong mutual bond between workers was lacking, 4) members thought that cooperation would be cheaper and did not realise the need to accumulate capital, 5) deficient administration, sometimes theft, 6) everyone’s expenses were written down; this allowed the man to control the woman, which she did not like, 7) legal personality was often denied; often because of the strong position of small businessmen, 8) too much philanthropy; wealthy lords’ deposits diminished the involvement of workers, 9) workers’ deficient development and purchasing power. Another popular reason for the failure of co-operatives – in line with Webb’s derogatory comments about the divi in England – was that workers-members were “almost exclusively interested in the immediate benefits their association brought, and not in what it would promise after struggling through its infancy” (Otten, 1924: 49).

<sup>1179</sup> The ANWV’s enthusiasm was almost given a fatal blow when in 1878 the Amsterdam Co-operative “Ons Voordeel” was put into liquidation with a deficit of 27,000 guilder.

<sup>1180</sup> Cornelis Croll in *Recht voor Allen*, 30-12-1887.

<sup>1181</sup> The repeated calls of the local shopkeepers for government to oppose consumer co-operation mostly were at no avail (Otten, 1924: 211).

<sup>1182</sup> “Centrale Bond van Nederlandse Verbruikscooperaties”

<sup>1183</sup> In fact, the First World War as a period of strong growth for the whole financial sector in the Netherlands. Dutch commercial banks saw their size triple or quadruple. It is only with the financial crisis of 1921 that the expansionary phase of Dutch banking ended (Van Zanden, 2002b: 21).

<sup>1184</sup> Worker co-operation, a socialist initiative, enjoyed even less support of catholics and protestants. In addition, social liberals like Treub, with the emergence of the socialist party and the labour movement, gradually became more anti-socialist. There were two other reasons for the relative failure of worker co-operatives. As mentioned before, the socialist movement lacked purposive clarity and fervour compared with other countries. The informal authority of socialist leaders was much smaller than the authority of catholic and protestant publicists and propagandists. Socialist discourse, partly due to the antipropaganda of local merchants, catholics and protestants, did not strike root amongst many workers and most farmers. Second, the techniques developed by worker co-operatives were much less practicable than the ones of Co-operative Banks. Inadequate financial administration and expertise, the lack of resources of members, insufficient interest and understanding by workers and farmers, competition by local merchants... all these factors contributed to the demise of worker co-operatives.

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<sup>1185</sup> It lasted until 1924 before the consumers' co-operative movement had its own savings bank, the "Algemene Spaarbank van de Verbruikcoöperaties" (Barou, 1932: 107).

<sup>1186</sup> In fact, this figure is of 1919. No data about 1920 are available for Germany.

<sup>1187</sup> Co-op Maandblad, February 1965: 22-23.

<sup>1188</sup> The social-democratic radio and television organisation.

<sup>1189</sup> As stated by Gurney (1999: 140), the visibility of the Co-operative movement in the late Victorian and Edwardian periods contrast starkly with its marginalizations by recent historians.

<sup>1190</sup> Failsworth Co-operative Messenger, June 1913, as cited in Gurney, 1999: 141.

<sup>1191</sup> In 1900 an estimated 3 per cent of consumer expenditure went to price-maintained goods. In 1938 this figure had risen to 30, and in 1954 to 55. After this date, the figure waned to 44 per cent in 1956, and 33 per cent in 1960 to go slightly up and down in the following years..

<sup>1192</sup> In fact, RPM was investigated very frequently by government committees between 1919 and 1956, most probably because the impact of restrictive practices in the retailing sector was so significant to the general public, which in turn may have consequences for the legitimacy of the business system. After WWII, the Labour government, backed by the general pressure from the United States agreed that a tough line on restrictive practices, and anti-social practices in generally, should be taken. A Board of Trade report of 1949 claimed resale price maintenance practices had "turned price maintenance from a reasonable means of preventing damage to well-known quality brands...into a comprehensive system for regulating and policing entire industries" which "must result in the virtual elimination of price competition in the greater part of the distributive trades of the country" (Mercer, 1995: 150).

<sup>1193</sup> Co-operative Congress Report, 1954: 68.

<sup>1194</sup> Co-operative Congress Report, 1954: 68-74.

See also <http://www.lancs.ac.uk/users/history/histwebsite/online/histfest/histfest2002/cropper.htm>

<sup>1195</sup> "Modernising the Co-op", New Statesman; cited in "From Market Research Department. Press Comment on "Independent Commission's Report", *Market Research Department WE/DB/00055/2*, Co-operative Union, 18<sup>th</sup> May, 1958.

<sup>1196</sup> "Co-operation Spring Cleaned", The Times; cited in "From Market Research Department. Press Comment on "Independent Commission's Report", *Market Research Department WE/DB/00055/2*, Co-operative Union, 18<sup>th</sup> May, 1958.

<sup>1197</sup> "Reform for Co-ops", Manchester Guardian; cited in "From Market Research Department. Press Comment on "Independent Commission's Report", *Market Research Department WE/DB/00055/2*, Co-operative Union, 18<sup>th</sup> May, 1958.

<sup>1198</sup> "Co-op needs livening up, says report", News Chronicle; cited in "From Market Research Department. Press Comment on "Independent Commission's Report", *Market Research Department WE/DB/00055/2*, Co-operative Union, 18<sup>th</sup> May, 1958.

<sup>1199</sup> Co-operative News, 23 March 1963: 1.

<sup>1200</sup> Co-operative Review, November 1964: 323-327

<sup>1201</sup> Co-operative News, 23 March 1963, p.1, 26 October 1963, p.2, 9 November 1963, p.1, 16 November 1963, p.2 & 30 November 1963, p.2; Co-operative Gazette, 11 November 1963, 275.

<sup>1202</sup> Co-operative News, 30 March 1968, pp.1-2.

<sup>1203</sup> The Consumers' Association was set up in 1957 to improve the standards of goods and services available to the public in the United Kingdom

<sup>1204</sup> This act provided the Industrial Common Ownership Movement (ICOM) with a five-year grant for £100,000 and £250,000 for investment in co-operative enterprises, and the establishment of the Co-operative Development Agency in 1978.

<sup>1205</sup> The Consumer Co-ops increasingly appealed only the poorest working classes; their image further deteriorated from the 1960s on; In his study of goal displacement in the British Co-operative movement, Donnelly (1980: v-vi) concluded that consumer "co-operators today see the goal of the movement as one of survival... Wider, more socialist aims, such as replacing the capitalist system, attract little or no support". There was then and is now, "a lack of vision about why the retail movement exists except that it provides jobs". Or as the Commission of Enquiry into the Co-operative Movement submitted in the year 2000: "missing is a vision of why do we exist, why are we here." In this regard, the difference between building societies and consumer co-operatives is remarkable (cf. Table 11.5). While both types of economic organisations in theory are non-profit, mutual organisations, what differentiates building societies from consumer co-operatives is that the former's leadership openly declares that "societies are run as commercial enterprises and not as extensions of the welfare state" (Harloe et al., 1974: 82). The leadership of the Consumer Co-operative movement is ever more willing to change, however, to remediate these flaws. So, according to the Co-operative Commission instituted in 2000, the

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Co-operative Bank should serve as a best-practice model of change for the Consumer Co-ops. Substantive change is still far off, though.

<sup>1206</sup> Report of the War Cabinet, 1918

<sup>1207</sup> Cited in Hannah, 1976: 45.

<sup>1208</sup> Cfr. Hannah, 1976: 50-51

<sup>1209</sup> The “stop-go” policy worked by “satisfying popular demands for social reform – the welfare state, full employment and rising living standards, by leaving industry to get on with its own business, and by applying the economic brake if either seemed to threaten the stability of the sterling”. In other words, the stop-go policy “integrated the opposing interests under the ultimate hegemony of financial capital” (Vickerstaff, 1985: 52).

<sup>1210</sup> This Act made collective restrictions over the sale of goods to third parties registerable in the Register of Restrictive Agreements.

<sup>1211</sup> Boddy, 1981: 87.

<sup>1212</sup> Cf. Labour Party’s 1977 Green Paper on Housing Policy: the building societies’ “dominant role in financing home ownership is probably unique among countries where home ownership is the largest tenure, and places their operations at the centre of housing policy” (HMG Cmnd 5851, 1977: 50).

<sup>1213</sup> The so-called Committee Lovink consisted of the three leaders of the farmer-associations, the two Central Co-operative Banks, three land-labourer organisations and two agricultural issue groups.

<sup>1214</sup> [http://www.ser.nl/default.asp?desc=en\\_introduction](http://www.ser.nl/default.asp?desc=en_introduction)

The SER also has an administrative role. This consists of monitoring commodity and industrial boards, which perform an important role in the Dutch economy. Industrial boards are responsible for representing the interests of particular branches of industry, and are made up of employers’ representatives and union representatives. In addition, the SER helps the government to enforce the Works Councils Act (Wet op de ondernemingsraden), the Establishment of Businesses Act (Vestigingswet Bedrijven) and the Insurance Agencies Act (Wet Assurantiebedrijfsbedrijf). What are the main differences between the Labour foundation and the SER, apart from the fact that the former is a private, bipartite body, and the latter a public, tripartite body. While the Labour Foundation is a “flexible” body for negotiations between social partners, the SER is a more institutionalised body for debate. Also, while the SER is an advisory body to the government, the Labour Foundation (although sometimes also asked for an advice) is primarily an institute to formulate recommendations to negotiating parties in branches and companies.

<sup>1215</sup> Fennema and Schijf, 1984: 16

<sup>1216</sup> idem

<sup>1217</sup> Cf. Kickert, 2000.

<sup>1218</sup> A debate about directly-elected mayors – subject to Crown appointment in the Netherlands – started. New methods of interactive decisionmaking and citizen participation were created, such as citizen polls and citizen panels.

<sup>1219</sup> I.e. the practice of using the central state apparatus to enjoy financial favours for private distribution by great political patrons (Hobsbawm, 1968: 194).

<sup>1220</sup> Cf. Hobsbawm, 1968: 192-193.

<sup>1221</sup> Boothby, 1927: 47.

<sup>1222</sup> Royal Commission on Food Prices, First Report (Cmd. 2390, 1925): 173, Cited in Hannah, 1976: 46.

<sup>1223</sup> “All decisions should be open and public” (Kickert, 2003: 122-123).

<sup>1224</sup> Cf. Atkinson, 1999: 59-60.

<sup>1225</sup> Hannah, 1976: 137.

<sup>1226</sup> The movement for wider investment in industry by wage earners and other small investors” (Conservative Political Center, 1959 *Everyman a capitalist*. London).

<sup>1227</sup> This catchphrase was first pronounced by Mr. Eden in 1945 (Lewis, 1954: 3).

<sup>1228</sup> Butler, 1963: 3-7.

<sup>1229</sup> Towards the end of the [Conservative] opposition period [end of 1940s], housing had emerged as the centrepiece of Conservative social-policy proposals, the heart of promises to spread property-ownership and the construction of a ‘property-owning democracy’. Under Bevan, housing policy had taken on a universal character based upon need rather than upon the ability to pay; licenses to build privately were restricted, and those homes which were built privately were limited in size and standard. The bulk of new housing was provided through the local authorities, and targeted at general needs rather than focused on slum clearance. But congestion and materials shortage in the building industry led to public disaffection with socialist housing policy; this was the weak spot which the Conservatives, promising to unleash the productive forces of the market, hoped to use as a showcase policy to demonstrate the virtues of free enterprise. The 1950 conference pledged to build 300,000 houses a year.

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<sup>1230</sup> 1928. “What Conservatives have done for British workers”, Conservative Political Centre Handbook.

<sup>1231</sup> This Act limited the powers of the House of Lords to block House of Commons legislation, asserting the supremacy of the Commons.

<sup>1232</sup> Dating back to Disraeli’s anti-Gladstonian speeches in 1872, in which he accused Liberals to effect the disintegration of the Empire of England. Disraeli effectively transformed the Conservatives into the “national party” in the 1870s (Blake, 1997: 126-127, 130). The nationalist element would prove be a great trump card for the Conservative Party, most notably in its ability to credibly launch accusations of anti-nationalism towards first the Liberal and later the Labour Party.

<sup>1233</sup> Disraeli tried to focus on interests common to the middle and working classes; Tory democracy in effect meant both the reorganisation of the party machine so as to make it more open to the urban middle class and the promotion of policies appealing to the working class (Blake, 1997: 147-148).

<sup>1234</sup> Harling, 1996: 258

<sup>1235</sup> The repeal of the Corn Laws in 1846 led to a severe split in the Conservative party’s ranks.

<sup>1236</sup> Burrow, 1988: 37.

<sup>1237</sup> Property in office had long been considered a *safeguard against any royal pretensions* to absolutist control over the administrative system, and the virtual sacralisation of property in the eighteenth century made it difficult to deny an office-holder the vested ‘right’ to his office, even for the sake of administrative reform (Harling, 1996: 22).

<sup>1238</sup> Report of the 1901 Co-operative Union Congress: 186-189.

<sup>1239</sup> Report of 1921 Congress: 484-485.

<sup>1240</sup> By extra-parliamentary, I mean that the cabinet maintains only loose links with parliamentary parties; for instance in that the cabinet more or less autonomously shapes its government programme.

<sup>1241</sup> Numbers for the Conservative Party are also those for the Coalition party.

<sup>1242</sup> Aristocrats are those who had among their grandparents the holder of a hereditary title.

<sup>1243</sup> Working class are those whose fathers appear to have had a manual occupation while they were growing up.

<sup>1244</sup> Disposable income is sum of market income (earned income from wages, salaries, self-employment, other cash-incomes from private sources) and public transfer payments, minus taxes and social security contributions. Income is measured on an annual base.

<sup>1245</sup> [http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP\\_PRD\\_CAT\\_PREREL/PGE\\_CAT\\_PREREL\\_YEAR\\_2005/PGE\\_CAT\\_PREREL\\_YEAR\\_2005\\_MONTH\\_06/2-03062005-EN-BP.PDF](http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2005/PGE_CAT_PREREL_YEAR_2005_MONTH_06/2-03062005-EN-BP.PDF)

<sup>1246</sup> [http://www.timbro.com/euvsusa/pdf/EU\\_vs\\_USA\\_English.pdf](http://www.timbro.com/euvsusa/pdf/EU_vs_USA_English.pdf)

# NEDERLANDSE SAMENVATTING

## Bedrijfssucces: vermogen om bij te dragen tot democratische pacten

De bedrijfskundeliteratuur en andere, bedrijfseconomische media die de Westerse publieke opinie richting geven, gaan impliciet uit van een positieve relatie tussen bedrijfssucces en deelneming in democratiseringsprocessen. Zo is het vanzelfsprekend geworden dat ondernemerschap bijdraagt aan de democratisering van de samenleving. De vele corporate governance and industriële democratie disputen doorheen de 19de, 20ste en 21ste eeuwen wijzen op een algemener punt: Westerse bedrijven worden periodisch geëvalueerd in termen van bepaalde democratische standaarden.

Ondanks het wijdverbreide karakter van deze veronderstellingen bestaat er noch een theorie die de preciese rol van bedrijven in democratiseringsdynamieken opheldert, noch klaarheid over hoe verschillende soorten van democratische participatie invloed hebben op bedrijfssucces. Zulke inzichten zouden een licht werpen op hoe een bepaalde positionering in projecten van economische groei, burgerschap en Staatsontwikkeling bedrijfssucces schraagt.

In dit manuscript stel ik niet enkel dat democratische participatie onontbeerlijk is voor bedrijfssucces; bedrijfssucces vereist een leidende rol in democratiseringsdynamieken. Meer bepaald, bedrijven worden afgerekend op hun capaciteit bij te dragen tot pacten tussen drie verschillende soorten democratiseringsdynamieken: ten eerste, economische versus politieke versus burgerlijke democratisering; ten tweede, democratisering van een minderheid versus gericht op consensus; en ten derde, democratisering gebaseerd op het territorialiteitsprincipe versus het personaliteitsprincipe.

Na nauwgezette analyse van de strategieën gevolgd door Nederlandse en Engelse commerciële en coöperatieve banken vanaf de 19de eeuw tot 2007, concludeer ik het volgende. Algemeen gezien<sup>6</sup> hangt bedrijfssucces af van zes strategische competenties – die allen bijdragen tot een pact tussen rivaliserende democratiseringsdynamieken:

1. *Help de sociale mobiliteitsaspiraties van kern klanten vervullen*
2. *Bedien klanten van verschillende sociale klassen*
3. *Maak Staatsbeleid aangaande economisch burgerschap bij “voldongen feit”*
4. *Vertaal Staatsbeleid aangaande economisch burgerschap in diensten & producten*
5. *Word een kampioen van nationaal karakter*
6. *Word een kampioen van het economische landsbelang*

Deze strategische competenties moeten beschouwd worden binnen een bredere geopolitieke en historische context: een context van bedrijven die in natiestaten opereren, en nationale leiders die democratiseringsdynamieken sturen overeenkomstig principes die historische continuïteit en geopolitiek voordeel het best waarborgen.

## De historische rol van republikeinse principes in democratische pacten

De opkomst van een Westers systeem van democratiseringsprojecten – economische groei, goed burgerschap en Staatsontwikkeling – is in belangrijke mate toe te

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<sup>6</sup> Uiteraard moet men rekening houden met de speciale nationale en geopolitieke rol van de banksector bij het algemene conclusies trekken uit bevindingen over banken voor de gehele bedrijfspopulatie.

schrijven aan de historische organisatie van beginnende natiestaten rond een aantal republikeinse principes. Drie republikeinse principes – met als belangrijkste vaandeldragers de Nederlandse Republiek, Engeland, Frankrijk en de Verenigde Staten – brachten een drastische verandering in geopolitieke verhoudingen. Een eerste principe is dat geen enkele nationale speler, groep of belang anderen structureel kan domineren. In andere woorden, de mogelijkheid tot democratische rivaliteit and meningsverschillen moet geïnstitutionaliseerd worden. Ten tweede, democratische rivaliteit en meningsverschillen moeten mogelijk zijn in economische, politieke en burgerschapszaken, aangezien economische groei, goed burgerschap en een sterke Staat even belangrijke republikeinse verdiensten zijn. Tenslotte, de dreiging van corruptie van republikeinse principes is steeds aanwezig. Dit noopt tot een tijdige transformatie van democratische instituties en een continue vernieuwing van democratische pacts.

In werkelijkheid zijn democratische pacts altijd onvolmaakte overbrengers van republikeinse principes geweest. De democratische standaarden die feitelijk in voege waren en het gedoogde corruptieniveau dienen in relatieve termen afgewogen te worden, in vergelijking met de standaarden en corruptieniveaus bij de geopolitieke concurrentie. Geopolitieke vergelijking leidt tot ranglijsten van natiestaten, overeenkomstig hun vermogen om uitdrukking te geven aan het ideaal van volkssoevereiniteit en het recht op zelfbeschikking.

Het vermogen van bedrijven om uitdrukking te geven aan het recht op zelfbeschikking hangt uiteraard ook af van hun band met bepaalde natiestaten en democratische pacts. Het gemak waarmee Noord-Amerikaanse bedrijven en multinationals West-Europese markten veroverden met hun organisatie-model steekt in dit verband af met de vele moeilijkheden die Engelse en Nederlandse multinationals zoals Unilever ondervonden om hun bestuurlijke systemen en autonomie te behouden.

Gezien de kritische schakel tussen bedrijfs- en natiestaatsucces, beschrijf ik in zeven stellingen hoe nationale leiders – niet in het minst bedrijfs- en lobby-leiders – een gunstige geopolitieke positie trachten te bemachtigen; en de mogelijkheden tot zelfbeschikking voor aangesloten bedrijven trachten te maximaliseren. Deze stellingen zijn gebaseerd op een historische vergelijking van democratische pacts in Nederland (de Nederlandse Republiek) en Engeland sinds de 16<sup>de</sup> eeuw; en in mindere mate de Verenigde Staten en de Europese Unie (de Duitse Republiek inclusief) sinds WWII.

De stellingen zijn alle gebaseerd op dezelfde bevinding. De meest succesvolle institutionele ordeningen in de Nederlandse en Engelse geschiedenis – de Nederlandse en Engelse “succes modellen” – zijn gegrondvest in republikeinse democratiseringstradities en pacts:

1. *Duurzaam succes voor natiestaten vereist het vermogen om republikeinse pacts en concurrerende democratiseringstradities te vernieuwen*
2. *De vermeende historische relatie tussen een democratisch pact en een nationaal Gouden Tijdperk verschaft leiders een simpel succes model*
3. *Eigen democratiseringstradities dienen heruitgevonden te worden overeenkomstig de tradities van het (de) geopolitiek leidende land(en)*
4. *Interpretaties van leidende geopolitieke tradities en pacts moeten voldoende verschillend zijn van de eigen tradities om historische verwarring te vermijden*
- 5a. *Heruitvinding van tradities en pacts is effectiever indien het uitgaat van een gefaalde relatie tussen staat en natie*

- 5b. *Opkomende buitenlandse tradities effectief opvangen en beantwoorden vereist het opzetten van supra-nationale pacten en instituties*
6. *Een geslaagde heruitvinding behoeft bewustzijn van de centrale rol van “happy accidents” in een historisch succes model*
7. *Opkomende leiders moeten tot op zekere hoogte tegen de stroom in roeien in tijden van hoge moderniteit en expressieve gewoonten geassocieerd met oude pacten heruitvinden*

## CURRICULUM VITAE



Manuel Hensmans (1973) obtained an MSc degree in Applied Economics (1995), a specialisation degree (GGS) in Applied Economics (1996), and an MSc degree in Applied Computer Science (1998).

In the recent past, Manuel Hensmans was a Research Fellow at the Advanced Institute of Management Research, UK (2004-2008). He was detached to the department of Strategic and International Management at London Business School (2004-2006), and the department of Strategic Management at Strathclyde Business School (2006-2007).

Manuel has acted as an executive and undergraduate teacher at the Rotterdam School of Management, and as an executive tutor at London Business School.

He has published in LRP, Organisation Studies and Organisation, and is in expectation of a co-authored business history book and article on « traditions of transformation ».

Before starting his academic career, Manuel was an international customer analyst at Caterpillar Belgium and an e-commerce consultant associated with the Free University of Brussels. Besides starting up the Flemish company vera.be, Manuel has been engaged in scientific consultancy projects with various Dutch and British companies amongst which Rabobank and Cadbury.

As the representative of foreign doctoral students at the Erasmus University Rotterdam during the years 2002 and 2003, Manuel negotiated a bigger budget and better assistance for all foreign students with the university's Board of Directors. He also obtained translation into English of important administrative documents for all foreigners (staff and students) at the University.

Recently, Manuel has set up the non-profit society Curieus Grimbergen, which co-organises socio-cultural events such as stand-upcomedy nights, lectures, expositions, movie nights, speeddating events...

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## A REPUBLICAN SETTLEMENT THEORY OF THE FIRM APPLIED TO RETAIL BANKS IN ENGLAND AND THE NETHERLANDS (1830-2007)

What is the relation between participation in democratisation dynamics and firms' success? The ability to take a leading role in democratic settlements largely shapes a firm's long term success. A key requirement to occupying such a leading role is the creation of a platform for the execution of rivalling democratisation dynamics by customers, stakeholders, and political actors. After careful analysis of the strategies followed by commercial and mutual banks in the Netherlands and England from the 19th century to 2007, I conclude that, in general, firms' success depends on six strategic abilities – conducive to a settlement between rivalling dynamics of democratisation. A second goal of the manuscript is to bring the geopolitical and historical back into the theory of the firm. Geopolitically, firms' ability to take a leading role is enabled and constrained by their affiliation with (a) particular nation-state(s); in particular the geopolitical perception of a nation-state's capacity to express the ideal of popular sovereignty and the right to self-determination. Historically, the main driver of the emergence of a Western system of democratisation was the organisation of incipient nation-states around republican principles: the impossibility for any actor or interest to dominate others, the possibility of rivalry and dissent, and timely action against corruption. These republican principles revolutionised geopolitical competition and are still key to Western nations' prosperity. Strategic abilities thus have to be considered within a larger geopolitical and historical context: that of firms operating in nation-states, and nation-state leaders steering democratisation dynamics according to principles most likely to provide them with both historical continuity and a geopolitical advantage. Drawing on an historical analysis of the strategies followed by the Netherlands (the Dutch Republic) and England since early republican times, the US and the EU since WWII, I clarify how nation-state leaders should go about in securing an advantageous geopolitical vantage point; and in maximising the possibilities of self-determination and success for affiliated firms.

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