Conclusion: domestic structures and strategies of foreign economic policy

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An inventory of the objectives and instruments which characterize the differing political strategies of six advanced industrial states in the international economy yields three groups of states: the two Anglo-Saxon countries, mercantilist Japan, and the states of the European continent. Corresponding differences exist in the distinctive elements of domestic structure: the coalition between business and the state and the policy networks linking public and private sectors. An historical explanation of these differences is most appropriate. In the future, stresses in the relations between business and the state and contradictions between ruling coalitions and organized labor may lead to changes in political strategies.

At no time since the late 1950s did the advanced industrial states jointly confront an threat as serious as the one in October 1973. The oil embargo and the ensuing price increases aimed at the core of their industrial economies and endangered the stability of their societies. However, even this common crisis led them to pursue divergent strategies of foreign economic policy. Blessed with a relative abundance of indigenous sources of energy and constrained by the strategic position of its Israeli ally, the United States adopted a hard line towards OPEC producer states. Britain increased its efforts to become self-sufficient in energy before the end of the decade by intensifying the development of its North Sea oil reserves. West Germany

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and France countered with a commercial offensive. Italy relied on direct foreign assistance. And Japan accelerated its investment program in countries exporting raw materials. The oil crisis thus points out an important question of contemporary international political economy. Why, in the face of a common threat, did the strategies of advanced industrial states differ so much?

This divergence in political strategies is not confined to questions of energy. On issues of international monetary reform, for example, conflicting national strategies date back to the early and mid-1960s. In the area of non-agricultural trade especially, divergent national strategies have appeared since the late 1960s. Questions such as the proposed commodity stabilization fund or the sale of certain types of nuclear reactors are only now revealing the fundamentally different strategies which advanced industrial states are pursuing.

This divergence in foreign economic policies is surprising. The growing entanglement of advanced industrial states in the international political economy resulted from the liberal political framework which the United States established after 1945. It was reinforced by advances in the technology of communications and transportation which drastically lowered the economic costs of international exchange. But this process of economic entanglement did not, in and of itself, lead to unquestioning acceptance of the dictates of the international market place. All major advanced industrial states developed different strategies to manage the terms of interdependence.

In the early postwar years the political and economic predominance of the US was so great that its presence or preference deeply affected these strategies. Charles Maier’s paper shows that these constraints were most evident in the policies of the defeated Axis powers. Extending the American vision of the “politics of productivity” to West Germany and Japan required direct intervention in many spheres of domestic political life. American intervention in Italy and France aimed primarily at containing Communist labor movements but did not attempt seriously to affect the organization of political parties, the state bureaucracy, and the business community. Although American policy makers may have disdained the Labour Party’s efforts to build a social welfare state in Britain after 1945, they were primarily concerned with replacing the Commonwealth system of Imperial Preferences with a truly international economic order. The anti-Fascist, anti-Communist, and anti-Imperial imperatives of American policy in the immediate postwar era thus affected, in different forms and to different degrees, the strategies which the advanced industrial states could use to manage the terms of interdependence.

Although still dominant today, America no longer holds the position of overwhelming power which it enjoyed in the immediate postwar era. To a greater extent than in the 1950s and 1960s the strategies of foreign economic policy of advanced industrial states now reflect their domestic structures. This essay, like

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1 See the special issue “The Oil Crisis in Perspective,” Daedalus Vol. 104, No. 4 (Fall 1975).
2 See the essay of Charles Maier in this volume.
Conclusion: domestic structures and strategies

those that precede it, argues that the divergence in foreign economic policies in the 1970s is due principally to differences in domestic structures.

The article is not a summary of the previous ones but a comparative analysis of political strategies in the international political economy. Part I makes an inventory of different strategies of foreign economic policy which shows three distinct patterns. The United States and Britain follow a liberal strategy in permitting market forces to operate and in giving policy makers few instruments to apply directly to particular sectors or firms. Japan, on the other hand, pursues a neo-mercantilist strategy which favors active intervention in the market and gives policy makers a large number of instruments with which they can impinge directly on specific sectors and firms. Finally, the European states occupy an intermediary position between Anglo-Saxons and the Japanese, with West Germany and Italy adopting a more liberal and France a more neo-mercantilist strategy.

Part II of the paper explains these three types of political strategies in terms of different domestic structures. In the two Anglo-Saxon countries these give private actors a powerful role; while in Japan the state bureaucracy and the Liberal Democratic Party (LDP) join the business community in determining the policymaking process.

Part III offers an historical explanation of contemporary differences in the domestic structures of advanced industrial states. A comparative analysis of the elimination of feudalism, the Industrial Revolution, and the process of state-building in these six advanced industrial states yields the same three groups of states as in Parts I and II. It distinguishes between the United States and Britain, with their democratic tradition and early industrialization, and Japan, with its authoritarian past and late industrialization. Once again, the three continental states occupy an intermediary position between the Anglo-Saxon countries and Japan.

Finally, Part IV addresses the sources of conflict and the potential for changing strategies of foreign economic policy. Conflict in domestic politics within the business community, and between business and labor is increasing. Directly or indirectly, governments and state bureaucracies get involved in these conflicts and thus may exacerbate developments in the international political economy.

I Strategies of foreign economic policy: objectives and instruments

For purpose of analysis it is helpful to distinguish between two aspects of strategy—policy objectives and policy instruments. The definition of objectives reflects a choice among values which differ from state to state. Throughout the postwar years, for example, the United States has vigorously pursued policies to support a liberal international economic order. Japan, on the other hand, has self-consciously sought to maximize its rate of economic growth. The instruments which policy makers command largely determine whether stated objectives can be achieved in the process of policy implementation. Throughout the 1960s the lack of tools for sectoral economic policy impeded the British government’s efforts to
improve export performance. Without these tools, France's policy of sectoral transformation would have been unthinkable. The distinction between policy objectives and policy instruments is no more than a convenient analytical device; in reality the ends and the means of a policy always fuse. The case of West Germany illustrates that some objectives, such as price stability, can become instruments to attain other objectives, such as export-led growth. And the defense of particular policy instruments, like sectoral policy, can itself become an objective of policy, by which states like Japan and France hope to maintain control over their own economies.

The essays in this volume provide a good starting point from which to construct a descriptive inventory of the objectives and instruments of foreign economic policy. To be sure, a great deal more careful, descriptive work needs to be done, some of which will undoubtedly lead to the revision, extension, and refinement of the brief inventories presented here. But future characterizations of different strategies in the international political economy will benefit, I believe, from the development of categories which are grounded in reality rather than abstraction. An inventory of policy objectives and instruments yields three distinct patterns. Policy makers in America and Britain, subscribing to the principles of a liberal international economic order, have at their disposal policy instruments which only indirectly affect particular sectors and firms. Japanese policy makers aim for a high rate of economic growth; they can command selective policy instruments which have a direct impact on particular sectors and firms. The three states of the European continent, finally, mix elements of Anglo-Saxon liberalism and Japanese neo-mercantilism in a third, hybrid pattern.

Policy Objectives: The analysis of policy objectives in these papers differs in three ways from the old concept of the national interest. (1) The description of a particular set of objectives is used solely as an analytical device. The normative connotations which identify the national interest with the public good in the traditional international relations literature are thus avoided. (2) Unlike the earlier literature, these essays do not postulate policy objectives deductively under broad categories such as "national security" or "national welfare." Instead they trace them inductively, by closely observing several areas of foreign economic policy. (3) Finally, the authors in this volume explore policy objectives by looking not only at policy makers' rhetoric but also at their actions.

The two Anglo-Saxon states and Japan differ greatly in their policy objectives. The United States' and Britain's deep and abiding commitment to the principles of a liberal international economic order has shaped their commercial policies. It also led them to defend the parity of their currencies even when, until the late 1960s and early 1970s, they were overvalued. Finally, it facilitated capital exports and imports. Japan has intervened actively in the play of market forces, and

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3 See the introduction to this volume.
defended the parity of its currency tenaciously, even when it was undervalued. It has actively encouraged capital exports only in very recent years and has tried to restrict capital imports.

Grouping the United States and Britain in one category does some injustice to the distinct way each of them has defined its objectives in the international political economy. American policy makers have viewed the liberal international economy abstractly in terms of the unhindered flow of trade and capital organized by private corporations. For British policy makers the meaning of a liberal international economy was more concrete, tied directly to the defense of sterling. Until the mid-1960s America's power was so overwhelming that it could tolerate some deviations (both by itself and others) from the principles of an open, international economic order. Britain's power base, by comparison, was relatively small and rapidly shrinking. The defense of the reserve position of sterling was essential for claiming the position of a world power. The differing meanings which American and British policy makers attached to the concept of a liberal international economy are important for an analysis of foreign economic policy. In commercial policy, for example, America showed a somewhat greater commitment to export promotion than did Britain; and American import restrictions have traditionally been somewhat more stringent than British restrictions. In monetary matters, economic criteria may not have justified American support of the dollar’s parity from the mid-1960s on. But compared to the political and economic costs the British incurred in defending sterling, American efforts to shore up the value of the dollar look paltry. Indeed in comparison to Britain it is striking how quickly American policy makers initiated and adjusted to a new set of monetary rules in 1971. Finally, the current American debate on foreign investments indicates a greater readiness to explore policy alternatives than is true of Britain, with its long-standing commitment to further capital exports.

Compared to Japan, though, these differences between America and Britain are minor. Economic growth was more important to the Japanese than defending a liberal international economy or aspired to great power status. After 1945 growth required a thorough modernization of the Japanese economy through a continuous transformation of its industrial structure. In its commercial policy Japan thus adopted an energetic program of export promotion and followed an export drive to increase Japan’s share in world markets for manufactured goods and to restrict imports to vitally needed raw materials and high technology goods. Furthermore,

4 On the neglect of British industry in particular, see the essay by Stephen Blank in this volume.
since 1949 Japanese policy makers have tenaciously defended the yen even when it was undervalued. Unlike Britain, that defense was not tied directly to larger political aims, but served the prosaic purpose of strengthening the position of Japanese products in world markets. And until the late 1960s Japan did not favor capital exports. Large increases in domestic wage levels and the appearance of a surplus in the balance of payments have contributed to a change in policy only in recent years. Despite some recent relaxation in Japan’s traditional restrictions on capital imports, policy makers’ desire to maintain control over all important sectors of the Japanese economy has not flagged. Foreign investment policy illuminates what is striking about Japan’s foreign economic policy more generally: the continuity in the state’s defense of the economy in the face of numerous external challenges.

The basic objectives of West German, Italian, and French foreign economic policy fall somewhere between the two Anglo-Saxon countries on the one hand and Japan on the other. West Germany and Italy approximate the Anglo-Saxon model; France follows the Japanese pattern. West German and Italian policy makers have encouraged export-led-growth, through which, until recently, they have achieved full employment and social stability. Although the strategy of these two states is viable only in a liberal international economy, West Germany’s economic success in the existing international economic order makes it, more than Italy, opposed to any basic changes in the rules of the game. West Germany’s success rests on an unfailing belief in the virtues of price stability, which strengthens the position of West German products in world markets by simultaneously dampening domestic demand and increasing the competitiveness of exports. Italy’s foreign economic policy, on the other hand, must tolerate higher levels of domestic inflation, which undermines its position in world markets by reducing the volume and competitiveness of exports.

In their commercial policy both West Germany and Italy share an export orientation and extend selective protection to import-competing industries. Despite two moderate revaluations of the Deutsche Mark in the 1960s, the Federal Republic, like Japan, has preferred an undervalued currency in order to strengthen its export performance. The Italian lira, on the other hand, did not experience pressure to revalue upward in international money markets, and Italy has favored selective devaluations of its currency whenever these have seemed opportune. On questions of foreign investment the objectives of West Germany and Italy were close to the liberal stance of the United States and Britain. Throughout the 1960s West German policy makers hoped to ease the upward pressure on the Deutsche Mark by encouraging capital exports. But in trying to maintain its competitiveness in the international political economy the Federal Republic has preferred to import

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8 strategy is not one of export-led growth.
8 With regard to import restrictions these three member states of the European Communities (EC) show relatively few differences.
foreign labor rather than to export capital. Large wage increases in the early 1970s, the revaluation of the Deutsche Mark under floating rates, and the growing scarcity of raw materials have accelerated the move of West German capital abroad. Iran’s acquisition of one quarter of Krupp stocks in 1976 again underlined West Germany’s traditionally permissive stance on questions of capital imports. In its openness to foreign investors West Germany was, however, surpassed by Italy which has taken perhaps the most liberal attitude of all advanced industrial states. Although Italy’s large corporations, both public and private, have exported more and more capital in recent years, throughout most of the postwar era Italy has tended to export labor rather than capital.

The objectives of French foreign economic policy show a close affinity to the Japanese emphasis on economic growth based on the transformation of key industrial sectors. But unlike Japan, and like Britain, Gaullist France subordinated this growth objective to broader political aims in the 1960s. This is the main reason why France has shown less continuity of purpose in its foreign economic policy than Japan. French commercial policy is distinguished by a program of export promotion through which the government has attempted to modernize key sectors of French industry. Like Italian monetary policy, French policy before and after de Gaulle was flexible in seeking maximum trade advantages from selective devaluations. But in the mid- and late 1960s the question of the franc’s parity became a cornerstone of de Gaulle’s attack on the international monetary system. In the face of increasing economic pressures, de Gaulle followed British precedents in preferring domestic deflation and foreign exchange regulations to devaluation of the franc. A similar stiffening of France’s posture was notable in the mid-1960s in reference to foreign investment. For a brief period French policy tried to discourage the inflow of foreign capital for political reasons. But the economic and political costs of that policy were too great, so French policy returned quickly to extracting maximum benefits from the multinational corporations. Unlike West Germany and Italy, it did not grant uncontrolled access to domestic markets but, especially in recent years, unravelled the package of technology, managerial know-how, and foreign capital. The export of capital has not been one of France’s main objectives. In recent years these exports have increased, but as in Italy the most sensitive political aspect of this change has been the growing “flight” of portfolio investment abroad, induced by fears of a left-wing government seizing power in the near future. The differing policy objectives of these six advanced industrial states are summarized in Table 1.10

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10 A search for patterns of policy should focus on the rows rather than the columns of Table 1. But such a search promises results only if the policy objectives were characterized more abstractly than is appropriate for this concluding essay.
### Table I: The objectives of foreign economic policy

<table>
<thead>
<tr>
<th>Balance of Payments</th>
<th>United States</th>
<th>Britain</th>
<th>West Germany</th>
<th>Italy</th>
<th>France</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>export orientaion</td>
<td>export orientaion</td>
<td>export-led growth</td>
<td>export-led growth</td>
<td>export promotion to increase competitiveness of French industry</td>
<td>export drive to meet import needs</td>
</tr>
<tr>
<td>Selective protection</td>
<td>liberalization of imports</td>
<td>selective protection</td>
<td>selective protection</td>
<td>selective protection</td>
<td>selective protection</td>
<td>general regulation of imports</td>
</tr>
<tr>
<td>Defend parity even when overvalued (mid 1960s–1971); flexible (since 1971)</td>
<td>strongly defend parity even when overvalued (until 1967 and to a lesser extent between 1967 and 1976)</td>
<td>defend parity even when undervalued and revalue by no more than a minimum margin</td>
<td>flexible</td>
<td>flexible; defend parity even when overvalued (in the mid and late 1960s)</td>
<td>strongly defend parity even when undervalued</td>
<td></td>
</tr>
<tr>
<td>Foreign Investment</td>
<td>encourage capital exports (except for temporary restraints in the mid 1960s)</td>
<td>encourage capital exports</td>
<td>encourage capital exports</td>
<td>tolerate capital exports</td>
<td>tolerate capital exports</td>
<td>restrict capital exports; encourage it only since the early 1970s</td>
</tr>
<tr>
<td>Welcome foreign investment</td>
<td>welcome foreign investment</td>
<td>welcome foreign investment</td>
<td>welcome foreign investment</td>
<td>welcome foreign investment</td>
<td>tolerate foreign investment (and impose temporary restrictions in the mid 1960s)</td>
<td>restrict foreign investment</td>
</tr>
</tbody>
</table>
Policy Instruments: The instruments which policy makers can command in the pursuit of their objectives also condition strategies of foreign economic policy. Collectively, these essays point to an impressive array of instruments from which policy makers can choose. These include traditional instruments such as licenses, tariffs, quotas, exchange controls, and export insurances. But they also cover the whole range of monetary and fiscal policies, including interest equalization taxes, tax credits and direct subsidies for exports, and incomes policy affecting the domestic economy via budgetary decisions or interest rates. Finally, there are some novel instruments: constitutional innovations such as the National Economic Development Councils (Neddis) in England, sectoral policy in Japan and France, or bilateral, "voluntary" export agreements between other countries and the United States. Faced with such a bewildering variety of policy instruments, it is necessary to group them into fewer descriptive categories.

Many of the policy instruments at the disposal of American and British policy makers are also employed elsewhere. At one point or another since 1945 the two Anglo-Saxon states have used quotas, peril points, escape clauses, invisible tariff barriers, direct subsidies to import-competing industries, tax concessions for exporters, and different forms of foreign exchange controls. But more than elsewhere, policy makers in these two states have relied on three distinctive types of instruments. The first is an appeal to ideology. America's liberal ideology grew out of Wilsonianism and, after 1947, anti-Communism. Stephen Krasner argues in his essay that this ideology was important in rallying the American public in support of the establishment and maintenance of a liberal, international economic order. According to Stephen Blank, Britain's fundamental consensus on the beneficial effect of its role as a world power was, until the early 1960s, similarly important in the defense of sterling.

A second instrument distinctive of the two Anglo-Saxon states is the creation of new institutions or a major shift of power between institutions. The forty-year period of liberalism in American commercial policy between 1934 and 1974 was made possible by a change in the institutional arena of policy making.11 The shift of power from the legislative to the executive branch of government partly insulated policy makers from protectionist groups and thus facilitated the steering of a liberal course in the international political economy. Britain, on the other hand, experimented in the 1960s with a large number of new institutions such as the Neddis and the Industrial Reorganization Corporation (IRC). Institutional innovation was originally undertaken to benefit exports through a general increase in the productivity and competitiveness of British industry. Institutional changes in Britain were potentially far-reaching, for their aim was to develop a price and incomes policy and a restructuring of the economy.

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Both Anglo-Saxon states have relied on a third, distinctive policy instrument. In the commercial and monetary area, American policy makers have often preferred bilateral, "voluntary" agreements with major trade partners over domestic adjustments. In an attempt to protect import-competing industries, America has, since the late 1960s, negotiated an increasing number of bilateral export control programs with other states. In the latter half of the 1960s the defense of the dollar would have been more difficult without West German cooperation; the purchase of so-called Roosa bonds, off-set agreements on troop stationing, and the assurance that West German dollar holdings would not be converted into gold all added strength to the dollar. On questions of foreign investment American policy makers have adopted a similarly "voluntarist" attitude toward America's own business community when, for balance of payments reasons, they sought to slow the outflow of capital from the early 1960s on. In contrast, British policy makers have used macro-economic policy in their defense of the pound. The external strength of sterling was taken as almost the sole guiding principle in determining macro-economic policy at home. Throughout the last two decades domestic demand, and particularly domestic investment, was curbed repeatedly in a breathless alternation of stop and go for balance of payments reasons. Changes in the government budget or the discount rate of the Bank of England affected the entire British economy.

The situation was strikingly different in Japan. Policy makers there use a wide range of instruments which directly affect industrial sectors or firms. In Japan's integrated tool kit two instruments hold a key position. First, Japanese policy makers have effectively used instruments of sectoral policy directly to restructure a number of key sectors of the national economy. Relying on numerous policy instruments such as concentration policy, indicative planning, export promotion, and most importantly the channeling of public investment funds, that restructuring was central to Japan's export drive after World War II. In addition, Japanese policy makers have had at their disposal a wide range of highly effective administrative tools. These have been of critical importance for restricting Japanese imports largely to raw materials, controlling the inflow of technology, excluding private direct investment, and linking recent capital exports with the search for new sources of raw materials.

The instruments available to policy makers in West Germany, Italy, and France fall somewhere between the extremes of the two Anglo-Saxon countries and Japan. That intermediate position reflects a particular blend of policy tools at the disposal of each of the three continental states. Speaking generally, West Germany approximates the Anglo-Saxon pattern of indirect control; France resembles more the Japanese pattern of direct intervention; and Italy holds a position somewhere in

12 Gilpin, *US Power and the Multinational Corporation*.

between. In the West German arsenal of instruments neither the Anglo-Saxon emphasis on institutional changes nor the Japanese emphasis on state-supervised industrial reconstruction figures prominently. Yet there is an undeniable affinity between the West German and the Anglo-Saxon approaches. West Germany’s export mystique was an ideological formula to which virtually all segments of West German society, including organized labor, have subscribed throughout the postwar era. And despite West Germany’s objective of export-led-growth there existed, in contrast to Japan and France, relatively little direct export promotion. The Export Promotion Act was rescinded as early as 1955; other instruments of export aid, such as credit guarantees, tax rebates, and interest rate subsidization by the state bureaucracy were used less in West Germany than in most advanced industrial states. Instead West German policy makers put a great emphasis on macro-economic policy. In comparison to Britain that policy had a more monetarist cast. West Germany’s preoccupation with price stability was reflected in the strict limitations which the constitution set to the deficit of the government budget. Fiscal conservatism was reinforced by a deflationary monetary policy and measures such as the acceleration of import liberalization in the 1950s and the import of foreign labor in the 1960s. All of these measures tended to keep domestic price increases down.

Two small revaluations of the Deutsche Mark notwithstanding, the defense of an undervalued currency was, until the early 1970s, a central instrument of West German foreign economic policy. The absence of other usable policy tools made the undervaluation of the Deutsche Mark the lynchpin of the Federal Republic’s strategy in the international economy. The dearth of policy instruments is illustrated by the fact that in the 1950s and 1960s foreign trade policy became a substitute for sectoral policy. Conditions on the world market, rather than in the West German state, shaped the structure of the West German economy. In fact the very concept of sectoral policy (Strukturpolitik) is mired in ambiguity. It refers to improvements in the social infrastructure of the welfare state (for example, schools, universities, hospitals, and roads), as well as deliberate efforts to develop high technology sectors of West Germany’s economy.

In contrast, French policy instruments resemble those used in Japan. Sectoral policy in France applies to critical parts of the economy which the government has singled out as deserving industrial reorganization. For that task of reorganization, policy makers in France can command a wide array of instruments, including control over a substantial portion of investment funds directly affecting particular sectors and firms. The distinction which John Zysman makes between an incentive (“faire-faire”) and a control (“faire”) approach to policy points to a possibly important difference between France and Japan.\footnote{See the essay by John Zysman in this volume.} Although both approaches are used in France as well as in Japan, French policy makers have relied more on an incentive approach, especially in recent years. In addition, the French state’s organizational structure and its characteristic use of administrative regulation have
proved, at times, to be incompatible with the technical requirements of production. We can see an example in the case of the unsuccessful reorganization of the French electronics industry. No comparable instance of “failure” has yet been recorded in Japan. Finally, France, more than Japan, has relied on resources from international institutions such as the EEC. Although the number and range of French policy instruments look impressive compared to those available in other continental states as well as Britain and the United States, they still lack Japanese scope and effectiveness.

Italian policy makers mix measures of direct intervention with elements of indirect control. Public corporations such as Ente Nazionale Idrocarburi (ENI) or Istituto per la Ricostruzione Industriale (IRI) give the Italian state a potentially very strong means with which to intervene in the economy. But despite the large size of these corporations it is surprising how little use policy makers have made of them in Italy’s foreign economic policy. In fact, these public corporations act relatively independently of the Italian state, whose planning efforts are still embryonic. Indirect measures of control, particularly monetary policy, are at least equally important. In addition, policy makers have often relied on the improvisation of a few key individuals in government. More important than in any other advanced industrial state is the strategic location of industrial and financial condottieri—the Carlis, Agnells, and Matteis—who implement Italy’s objectives in the international political economy to the best of their individual abilities. Table 2 summarizes the main policy instruments available in the six advanced industrial states.

Despite their summary presentation in Tables 1 and 2, policy objectives and instruments are not ineluctable or unchangeable. Strategies of foreign economic policy result from policy makers' choices among alternative objectives and instruments. These strategies are not predetermined nor do they occur within a vacuum. Tables 1 and 2 reveal systematic differences in the objectives and instruments of foreign economic policy in three groups of states. We shall explain these differences through an analysis of the different domestic structures in which policy makers operate.

II Domestic structures and strategies of foreign economic policy: coalitions and policy networks

The ruling coalition and policy networks in domestic politics condition strategies of foreign economic policy. The definition of policy objectives is shaped largely by the ideological outlook and material interests of the ruling coalition. Such coalitions combine elements of the dominant social classes with political power-brokers finding their institutional expression in the party system and in a

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15 Banca Commerciale Italiana, “The Italian Economy: Monetary Trends,” produced by the Research Department with the collaboration of Mario Monti (Università Bocconi and Università di Torino) 1 (September 1975): 11.
### Table II  The instruments of foreign economic policy

<table>
<thead>
<tr>
<th></th>
<th>UNITED STATES</th>
<th>BRITAIN</th>
<th>WEST GERMANY</th>
<th>ITALY</th>
<th>FRANCE</th>
<th>JAPAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>appeal to anti-</td>
<td>consensus ideology</td>
<td>shift institutional arena</td>
<td>export ideology</td>
<td>nationalized industries</td>
<td>sectoral policy</td>
<td>sectoral policy</td>
</tr>
<tr>
<td>Communist ideology</td>
<td>institutional innovation</td>
<td>&quot;voluntary&quot; bilateral</td>
<td>deflationary macro-economic policy</td>
<td>macro-economic policy</td>
<td>administrative regulation</td>
<td>administrative regulation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>agreements</td>
<td>(primarily monetary)</td>
<td>(primarily monetary)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>defend undervalued currency</td>
<td>improvisation by key</td>
<td>extract resources from</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>individuals</td>
<td>international institutions</td>
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</tr>
</tbody>
</table>
variety of institutions a step removed from electoral competition—government ministries, banks, industrial associations, and large public or private corporations.

Policy instruments are a second aspect of strategies of foreign economic policy. It is the character of the policy network spanning both the public and the private sector which conditions them. The number and range of policy instruments emerge from the differentiation of state from society and the centralization within each. Varying degrees of differentiation and centralization create a distinctive combination of instruments in each of the six advanced industrial states.

In the next three sections we examine ruling coalitions and policy networks and advance an explanation of the objectives and instruments of foreign economic policy summarized in Tables 1 and 2. In that explanation we face two tasks. We should account for the main differences between the three groups of states identified in Tables 1 and 2: the two Anglo-Saxon countries, Japan, and the states of the European continent. At the same time, though, our explanation should also make intelligible the differences in strategy which distinguish the United States from Britain, and West Germany, Italy, and France from one another.

United States and Britain: Public officials have played a major role in tailoring American and British foreign economic policy to the defense of a liberal international economy. Government officials do not define these objectives single-handedly but in conjunction with business and financial leaders. However, the political rationale underlying their calculations is very much in evidence. This is especially clear for the American case.16 The anti-Communist strategy which gave American foreign policy its overall focus in the postwar era required a liberal, market-oriented international economy uniting the Western Alliance. Similarly, British officials derived from the three circles they sought to unite—Europe, America, and the Commonwealth—a mandate for internationalism. Britain’s waning influence in international politics also reinforced her ideological commitment to the principles of the Atlantic Alliance.

In both states, politically motivated support of a liberal international economy ran parallel to and was reinforced by the economic interests of the business community. But the latter term is imprecise: by all measures the American business community is large and heterogeneous. On questions of international economy it has contained both isolationists and internationalists.17 The isolationist elements of the American business community tend not to locate on the East Coast, are outside both the old Establishment and the financial community, and represent medium-sized corporations and small firms focusing on domestic investments. The internationalists, on the other hand, tend to be on the East Coast, are often part of the financial community, and represent large corporations heavily involved in international operations. During the last decade these distinctions have become less sharp. The

gradual shift of industrial and financial power away from the declining East toward America's "new South" and the growing internationalism of the farm belt in the Midwest have led to a blurring of distinctions in the economic realm. In the area of foreign policy, the socio-economic "Establishment" has been supplemented and to some extent supplanted by the professional foreign policy "Community." But despite these changes, it still remains true that America's international corporations have more tolerantly accepted the occasional violation of the market-orientation to which both segments of American business subscribe. Their toleration has in turn facilitated the joint definition of objectives by a coalition which has united business "interest" with state "ideology."  

Although it is smaller and less heterogeneous than its American counterpart, the British business community is also internally differentiated. Put concisely, the British definition of policy objectives reflects a "banker's" rather than a "business" view of the world. The former view has found its most ardent proponents in London's City, whose economic survival, it was thought until the mid 196os, depended on defending the position of sterling as a reserve currency. But the banker's view extended far beyond the City; subscribed to by the "Overseas Lobby" in the Treasury, it totally dominated the thinking of a succession of occupants of 10 Downing Street whose decisions ultimately counted most. The single most important source of the banker's view has been the Bank of England, which links government with the financial district and British industry beyond. Despite the devaluation of the pound a decade ago and its accelerating decline in recent years, the banker's view has retained a remarkable strength in the definition of policy objectives. It is perhaps the major asset which Britain commands today as it confronts an increasingly restive international financial community.

The dominance of the multinational corporations in the American business community and the City in the British business community explains why policy objectives are subtly different under the common veneer of market liberalism. The economic interests which entered into the definition of policy objectives were "real" in America and "monetarist" in Britain. This explains why the promotion of exports and selective protection have ranked somewhat higher in American commercial policy than in Britain. It also makes intelligible the British policy makers' rigidity in defending the pound.

International forces also help to explain why both Anglo-Saxon states favored a liberal orientation in defining their objectives and why American goals tended to

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19 Schurmann, pp. 8–13.


21 The overhang of sterling assets held abroad was of course an additional factor constraining British policy.
be cast in "real" and British objectives in "monetarist" terms. The access-to-market form of interventionism which has characterized Imperialism in its British and American incarnations and the management of an international reserve currency which accompanies hegemonic leadership in the international political economy both reinforce a liberal definition of policy objectives. The monetarist cast of British foreign economic policy has been conditioned by the very duration of Britain's imperial past and the prolonged decline in international power which it has experienced. Although the institutional effects of American hegemony since 1945 have also been profound, the American Empire is, in comparison, much younger, and the definition of American objectives is consequently less rigidly focused on intangible international obligations which cut across tangible claims at home.

The centralization of state and society and the differentiation between them affect the character of the policy networks and policy instruments. The British state has only one apex. The shift of authority from Parliamentary, to Cabinet, to Prime Ministerial government which has occurred during the past century has made 10 Downing Street the central decision point which controls, at least formally, the entire apparatus of the British state. The elected representative of Britain's system of responsible government can command the loyalty of a unified civil service. By comparison, the organizational fragmentation of Britain's private sector is striking. Business organizations have comparatively little impact on foreign economic policy. In undermining the centralization of organized labor, the shop steward movement has greatly impaired the capacity of any government, be it Conservative or Labour, to wage an effective policy. The absence of a handful of leading private banks reinforces the decentralization of the British banking sector, with its sharp division between clearing banks (which provide liquidity to the money market for short-term credit) and merchant or investment banks (which offer long-term credit to British industry). The clear differentiation between state and society is the third feature characteristic of Britain's policy network. In the early 1970s, for example, the threatened involvement of the state in collective bargaining almost precipitated a general strike. Another example of this differentiation is the fact that officials of private banks are barred from serving on the Board of Directors of the Bank of England. Throughout Britain's system of interest group representation, a "single-minded attention is paid to the maintenance of jurisdictional boundaries" between state and society. The sharing of information, consultation, and bargaining


23 Ulrich Immenga, Participation by Banks in Other Branches of the Economy, Competition—Approximation of Legislation Series No. 25 (Brussels: Commission of the European Communities, 1975), pp. 20-25. Due to the high rate of self-financing of British corporations the industrial and financial sectors of the British economy are less intimately linked than in other countries. See Derek F. Channon, The Strategy and Structure of British Enterprise (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1973), p. 38.
distinctive of Britain’s “collectivist politics” takes place at a table which separates public from private sectors.24

Federalism, the separation of powers, judicial review, the committee and seniority system in Congress, and the absence of a disciplined two-party system illuminate the contrast between the centralized British and the fragmented American state. Organizational decentralization also marks America’s private sector. The National Association of Manufacturers (NAM) and the Chamber of Commerce are weak national organizations representing the interests of the corporate sector. Trade associations are of greater importance but suffer from political atrophy in industries dominated by large firms. Even where they are strongest, these associations are a far cry from the peak associations and cartel arrangements so common on the continent and in Japan.25 The decentralization of the American labor movement is also striking, for the uneasy alliance between crafts unions and industrial unions excludes major parts of organized labor such as the Teamsters but cultivates close ties with Canadian labor. Although it looks remarkably centralized when studied by itself, America’s banking community is nothing like the kind of finance capitalism which Hilferding analyzed in the European context at the beginning of the twentieth century. Whether measured in terms of direct ownership of industry or financial market share, in comparative perspective America’s banking sector looks relatively decentralized.26 Finally, in contrast to Britain, the differentiation between state and society is not fully developed in America. Business groups and large corporations enjoy easy access to members of Congress, who act without the protection of strong national party organizations. The character of the American bureaucracy and regulatory commissions encourages in practice a symbiosis between public and private actors which is widely condemned in theory.

The successful conduct of foreign economic policy in the American and British state is difficult. Policy makers in both countries have few instruments of limited range to pursue their objectives. Although they take pride in their pragmatism, in both America and Britain, ideology has been an important instrument in the pursuit of liberal objectives. In addition, both countries’ limited range of policy instruments typically leads to problems of institutional design which often transcend the particular issue at hand. In America’s decentralized state a perceptible line has


separated a relatively protectionist Congress from a free-trade oriented Executive during the last forty years. The victory abroad of the executive-centered American "ideology" of liberal internationalism was possible only because of the defeat of American "interest" centered in Congress at home. This dualism mirrors that in the American business community. The culmination of America’s postwar commercial policy in the 1962 Trade Expansion Act showed that political and economic dualism in and of itself did not stalemate foreign economic policy. The jurisdictional authority of Congressional committees and the effect of single-member constituencies (which Krasner argues permitted interest-group liberalism to feed on Congress as the carcass of the body politic) had shrunk while that of the Imperial Presidency had enlarged. The secondary effects of this institutional shift, which excluded Congress and import-competing industries from policy, has often been overlooked in recent years. In American foreign economic policy the role of the "internationalists" remains strong. The new Trade Reform Act of 1974 is remarkable, not for how much but for how little power it has shifted back to Congress.\(^27\)

In Britain the conduct of foreign economic policy is not impaired by a decentralized state selectively infiltrated by private interests, but by a decentralized private sector differentiated sharply from the state. Because the rigidity of the British policy process does not allow for the kind of institutional shifts characteristic of American commercial policy, questions of institutional innovation have been crucial to the implementation of Britain’s foreign economic policy. Once policy makers understood that the problem of sterling could only be solved through British exports, requiring increases in investment and productivity, they had to create institutions such as the Neddies to bring about these increases. Because it raised broader constitutional issues about the role of the British state in the economy, the experiment of the Neddies was a failure at least in terms of Britain’s foreign economic policy. The consensus and stability orientation of Britain’s collectivist politics, rooted in the political strategies of successive cabinets as much as in the system of private "veto-groups," made it highly improbable that policy could go beyond the stop-go cycle of Keynesianism. Thus the British Treasury was not "steering" the economy but bailing it out.\(^28\) In summary, the immobility characteristic of American policy and the rigidity distinctive of British policy simply reflect the fact that in these two Anglo-Saxon countries questions of foreign economic policy lead more quickly to issues of institutional design and constitutional practice than in either Japan or the states of the European continent.

Faced with these obstacles, American and British policy makers have often chosen the path of least resistance. But the international context in which they have operated has led American policy makers to choose a path abroad, while


British policy makers have had to arrive at workable strategies at home. The sale of US government bonds to foreign central banks and the increases in Special Drawing Rights (SDR) with the International Monetary Fund (IMF) are examples of how American officials defended the parity of the dollar during growing balance-of-payments deficits in the 1960s without having to restrict their policy options. Since the late 1960s, the United States has negotiated a large number of "voluntary" export restriction agreements with other states in order to protect uncompetitive domestic industries and endangered jobs. In the pursuit of their objectives British policy makers lacked such international crutches. They have, instead, relied heavily on the lever of Keynesian macro-economic policy. The Treasury and the Bank of England could easily use this method; it required no direct cooperation from Britain's decentralized private sector; and it was supposedly apolitical, since it affected the whole economy at once rather than selected sectors.²⁹

Japan: Among all advanced industrial states, the neo-mercantilism of Japan's objective of national growth provides the greatest contrast to the two Anglo-Saxon countries. The strength of the Japanese state derives from the intimate relations between the governing Liberal Democratic Party (LDP) and the state bureaucracy. As the most powerful spokesman of the conservative business community in Japanese politics, the LDP has held power ever since its formation in 1955. In a spirit of partnership the LDP has joined a prestigious and cohesive state bureaucracy, staffed largely by graduates of Tokyo University who were not taught the doctrines of laissez-faire liberalism. Japan's dependence on imports for virtually all of its raw materials and policy makers' perception of its relative isolation in the international community have reinforced the predilection of Japan's top party officials and senior civil servants to equate raison d'état with raison d'être.³⁰

The growth orientation of Japan's foreign economic policy was actively supported by the business community and, in particular, its largest corporations whose economic interests it served most directly. Well into the 1960s commercial expansion abroad was important for achieving large increases in corporate earnings. In contrast to the British and American cases, a sizable sector of Japan's small businesses was politically frozen out of the process of defining policy objectives. Therefore, fewer important disagreements, such as the 1970 textile dispute, can be detected in the coalition between business and the state. It is thus impossible to ascertain the degree to which political aims have prevailed over economic ones, or vice versa. To construe the Japanese case in such language is in fact to mistake its


very essence: the absence of serious conflict over policy objectives among the business community, party leaders, and senior civil servants.\textsuperscript{31}

The international context in which Japan found itself after 1945 supported the neo-mercantilist course which it charted. Ironically, Japan's dependence on liberal America acted like a dam to protect it from the rising tide of antagonism and muted opposition among the member states of the Organization for Economic Co-operation and Development (OECD). Until the early 1970s American officials put broader political and security considerations over the narrower concerns of American multinational corporations wishing to enter the Japanese market and domestic industries increasingly threatened by Japanese exports.\textsuperscript{32} A mercantilist state, furthermore, was likely to adhere to its chosen objectives in a liberal international economic order as long as it refrained from challenging the rules of the entire system. Unlike Gaulist France, Japan's objective in the international political economy never smacked of status diplomacy but revealed a single-minded export "atavism" instead. This was reinforced by import restrictions, an under-valuation of the yen, and a tight regulation of foreign investment.

The conduct of Japanese foreign economic policy has been greatly facilitated by the high degree of centralization of both state and society, as well as the lack of differentiation between them. In contrast to both the United States and Britain, the coalition between business and the state commands a large assortment of wide-ranging policy instruments. In comparison to America, Britain, and the continental states, Japan knows relatively few ethnic, religious, or regional cleavages. In its unitary system of government the central bureaucracy clearly controls lower levels of the state bureaucracy, headed by elected officials whose party has succeeded in monopolizing public office for the last two decades. This unified structure does not encourage infiltration from the bottom but rather invites accommodation at the top.\textsuperscript{33} This feature bears more resemblance to the bargain struck between Ameri-

\textsuperscript{31} A number of readers of earlier drafts of this paper have pointed out to me that this interpretation of Japan's domestic structure is in partial disagreement with recent writings which stress the pluralist character of Japanese politics. This disagreement, I believe, is due to the difference in perspective. Japan specialists rightly point to the numerous and intense political conflicts which accompany policy making as evidence speaking against the interpretation of "Japan Incorporated." What is striking, though, in comparative analysis is the fundamental underlying consensus which unites business, the government bureaucracy, and the LDP leadership, and which contains these conflicts. For a discussion of Japanese pluralism, sectionalist, and fractionalism see Hugh Patrick and Henry Rosovsky, "Japan's Economic Performance: An Overview," in Patrick and Rosovsky, pp. 48–51; Trezise and Suzuki, pp. 761, 786. Ezra F. Vogel, "Introduction: Toward More Accurate Concepts," in Modern Japanese Organization and Decision-Making, Ezra F. Vogel, ed., (Berkeley: University of California Press, 1975), pp. xv–xviii. See also Gerald L. Curtis, "Big Business and Political Influence," ibid., pp. 33–70.


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ca's large corporations and the executive branch of government than the organizational isolation of the British Prime Minister and the party elites in his Cabinet. The centralized character of the Japanese state helps explain why it has been able to act as a doorman, controlling the economic traffic entering and leaving Japan.

In contrast to Britain, a comparable degree of centralization also marks Japan's business community. The bifurcation of this community bears some resemblance to the American pattern. But in contrast to the United States, the gulf separating the giant corporations from small and medium-sized firms is bridged in two ways. A very large proportion of these smaller firms consists of subcontractors of the large corporations and has permanent affiliations with them. Organizational unity, furthermore, is assured by an elaborate network of overlapping peak associations dominated by the large corporations; this arrangement casts most parts of Japanese business into one centralized mold. The small number of Japan's commercial banks and the keiretsu system, by which industry and finance are linked, are similarly centralized, for they are all directly tied to the Bank of Japan and its monopoly power in regulating the supply of credit. The one exception to the centralized character of Japan's private sector is the dual organization of the unions, which leaves enterprise unions and national organizations largely independent of one another. But this has had little direct effect on Japan's foreign economic policy. In contrast to Britain, Japan's organized labor has been systematically excluded from positions of authority and has played at best only a limited role in policy.

The lack of differentiation between state and society is the third feature of the Japanese situation which facilitates policy implementation. In contrast to Britain and, to a lesser degree, America, relations between business and the state are so symbiotic that it is virtually impossible to determine where one stops and the other begins. Multiple connections exist. Common school ties in Japan's elite universities, especially Tokyo University, are reinforced in subsequent stages of life by an extensive system of advising committees, linking business, the LDP, and the state bureaucracy. Upon retirement prominent senior civil servants frequently "descend from heaven"; that is, they leave the service of the state in order to join business corporations or to become LDP members in the Diet. Business representatives, in turn, help draft legislation in the influential policy committees of the LDP. In the tight interlock between business and finance the state is always present, for the government owns a majority of the shares of the Bank of Japan which provides the capital for Japan's industrial machine. In contrast to the nationalized-yet-autonomous Bank of England, the de facto nationalization of the Bank of Japan

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gives institutional expression to a policy network which in comparison to the United States and Britain is highly integrated.

The systematic reconstruction of specific sectors of Japan's industry in a planned sequence has been most important. Thus sectoral policy has been executed most often through administrative regulations issued by the powerful state bureaucracy. Japan's successful sectoral policy is in sharp contrast to the failure of the British Neddies; it is the functional equivalent to the mixture of economic robustness, market size, relative economic isolation, and international hegemony which has been the major substitute for the limited range of American policy instruments.

*West Germany, Italy, and France:* In their policy objectives and instruments the domestic structures of the two Anglo-Saxon states and of neo-mercantilist Japan represent the end points of a scale whose center is occupied by the three states of the European continent. Although the differences among the latter are less sharp, the coalitions which define objectives and the policy networks which condition the instruments of policy give West Germany's domestic structures an Anglo-Saxon cast; French structures resemble those in Japan; Italy, finally, occupies a middle ground.

From its beginning in 1949, the West German state has subscribed to an ideology of economic liberalism (*Soziale Marktwirtschaft*) which has been more strictly adhered to in defining international objectives than in domestic economic policy. Although this ideology justifies temporary state interventions in the market, West German governments have consistently advocated a liberal international economy.\(^{35}\) Concrete political gains have gone along with West Germany's strategy of export-led-growth. The new West German state was compelled to compensate for the loss of its former export markets in East Germany, Poland, and Eastern Europe through an aggressive commercial offensive in the West. In addition, measures such as the early reestablishment of free convertibility and unilateral tariff reductions were useful for creating international goodwill and improving the international standing of the Federal Republic. The preference of the West German state for commercial expansion in a liberal international economy won out over political desires for European unification. On this important foreign policy question the views of the Economics Ministry have atypically prevailed in West Germany's "Chancellor Democracy."

The West German business community has fully agreed with the state's objective of export-led-growth and has been the main driving force since the initial political choice was made. As in America and Britain, however, West Germany's business community has been internally divided. The voice of the export industry has carried great weight on questions of commercial policy, favoring swift expansion in world markets. Smaller and more traditional firms have barely succeeded in their push for selective import controls. But the real contest concerned the issue of

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the chronic undervaluation of the Deutsche Mark. The advocates of monetary stability in the banking community argued that a strong export performance depended on domestic price stability, which an undervalued currency and the influx of speculative funds systematically eroded. In a situation of stalemate, international pressures tipped the scale and the export industries had to accept a very modest revaluation of the Deutsche Mark in 1961 and 1969. The managed float, to which the international monetary system has agreed since 1973, has reduced this long-standing irritant dividing West Germany's business community. In times of high inflation throughout the world, West Germany's domestic deflation policies offset and in some instances possibly exceeded the margin of revaluation of the Deutsche Mark in international money markets. In this manner the growth objective of export industries and the stability orientation of parts of the banking sector were well served. Economists may tell us that drastic deflation in 1974–1975 was "technically" wrong, but it was "politically" right.

The social coalition which has defined policy objectives in postwar France to some extent resembles Japan's and offers a sharp contrast to the Federal Republic. Throughout the Fourth and Fifth Republics the French bureaucracy has been the key actor in defining the growth objectives of French foreign economic policy. For a brief period in the 1960s, though, these objectives became subordinate to the larger diplomatic aims of General de Gaulle. Cabinet instability in the Fourth Republic and the organizational weakness of the Gaullist movement in the Fifth Republic have given the French bureaucracy the dominant voice in policy deliberations. The dirigiste outlook of the state bureaucracy is reinforced by an elaborate, institutionalized system of indicative planning which clearly spells out the state's policy objectives (although less so in the area of international economic questions) and tries to avoid internal contradictions between different objectives. Nothing comparable exists in either the Bonn Republic or in Italy.

French business has participated in the process of specifying growth objectives in a privileged but subordinate role. The consultative mechanism through which the Planning Commission prepares its major statements gives business, and


particularly big business, very considerable weight. The French *tutelle* system, which links particular ministries vertically to a number of important industrial sectors or large corporations, makes the contribution of French business to the definition of policy objectives more explicit than is true in the case of the Japanese business community. But like Japan, and unlike West Germany, the powerful actors in French industry, commerce, and finance have been in basic agreement with the objectives of French foreign economic policy. This is not surprising in commercial policy, for the French "concentration policy" and an energetic program of export promotion helped the modern industrial sectors and large corporations most. When confronted with General de Gaulle's status diplomacy, the quiescence of French business illustrated the dominance of the state. The attempted restrictions on capital imports in the mid-1960s and the defense of an overvalued franc in the late 1960s were largely detrimental to the more narrowly conceived economic interests of French business.

Like West Germany, Italy has adhered to the objective of export-led-growth. That the Italian state would put so much store in the principles of a liberal market economy is in a way surprising, since the 1865 legislation on Italy's administrative unification was modelled after Napoleonic law. Although the electoral base of Italy's Christian Democratic Party (DC) was narrower than Japan's LDP, Italy has been uninterruptedly governed by a broadly-based conservative party. The passivity of the Italian state is due to a deeply ingrained personalism and fragmentation. That fragmentation in turn is congruent with and reinforced by the DC's "interclass coalition for patronage" which has sustained it in power for the last twenty-five years.\(^{40}\) With the DC's 'Opening to the Left' in the early 1960s, the Italian government began to debate the merits of state planning more seriously. It rapidly became clear that the state bureaucracy and the right wing of the DC were adamant in their opposition to any new policy departures which might smack of Socialism. Italian planning was thus not "indicative" but wavered between being suggestive and projective.\(^{41}\) In many instances such elementary obstacles as inaccurate data collection impaired the attempts of state bureaucrats and elected officials to set forth specific targets of action.

As in West Germany, in practice the task of defining and pursuing foreign economic policy objectives was thus assumed by other, parastatal institutions such as ENI, the Bank of Italy, or large private corporations such as Fiat or Pirelli. After the experience of Fascism and World War II, pent-up entrepreneurial instincts have led these organizations largely to disregard whatever objectives the state bureaucracy set forth. The large corporations have supported the market principle in the international political economy, and to a lesser degree, in the domestic economy as


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well. Neither ENI nor IRI, for example, has opposed the extremely liberal provisions governing foreign investment contained in the Vanoni Law of 1956. Italy’s private business community, and in particular the large industrial enterprises represented by their peak association, the Confindustria, have strongly supported an export-led-growth strategy, especially when tempered by selective state subsidies, tax credits for exports, selective import protection, and a flexible exchange rate policy designed to strengthen Italian exports. Corporations such as Fiat or Olivetti charted a course of corporate expansion in the international political economy. They wished nothing more than to be left free of arbitrary state intervention.

The international context in which the ruling coalitions have defined the objectives of West German, Italian, and French foreign economic policy has, in most instances, reinforced the predilections of policy makers in these three states. The defense of private property and the market principle which acceptance of the politics of productivity promised was of critical importance to the West German coalition, especially in the early postwar years when it found itself in the front trenches of the Cold War in a divided nation. The pursuit of French objectives in the 1960s was possible only after the establishment of the EEC generated West German transfer payments which were important in modernizing France’s industrial structure. Similarly, Italy’s political stability and “economic miracle” were helped by the EEC’s liberalization of international labor movements, which siphoned off surplus labor in the South and improved the Italian balance of payments. At times, though, the international context contradicted the preferences of the ruling coalitions. The liberal attitude which all three states have taken toward the influx of foreign, and especially American, capital can be traced to United States government’s insistence that American companies in EEC member states would be treated no differently than West German, French, or Italian “national” companies.42 French policy makers have bridled under this restriction, especially in the mid-1960s, and since then have sought to protect critical French industries with various means falling short of government restrictions. In private, West German policy makers may well have applauded French efforts, for the “imported inflation” of the 1960s was largely the result of the rapidly growing Eurodollar market in which American multinational corporations and banks operated freely.

Policy networks in West Germany, Italy, and France differ in the number and range of instruments they offer to policy makers. As was found in the analysis of policy objectives, West German and Italian instruments bear some resemblance to those in the United States and Britain, while French policy instruments are not unlike Japan’s. By all accounts the West German state is decentralized.43 Its lack of a field system of administration is only partially offset by the smooth administrative coordination which links the federal bureaucracy with the provinces. Institu-

42Gilpin, p. 108.
tions such as the Federal Employment Office (Bundesanstalt für Arbeit) or the Cartel Office (Kartellamt) are endowed with a constitutional mandate but in effect operate outside the regular bureaucratic chain of command. Bolstering the important role they play in policy implementation is a specialized court system which deals with a large number of social and economic problems. "Departmentalization" within the federal bureaucracy in Bonn, furthermore, was the major focus of an unsuccessful administrative reform movement in the early 1970s. West Germany's private sector, on the other hand, is highly centralized. Business is organized in a number of powerful peak associations, uniformly dominated by its largest members, which offer an institutional mechanism for articulating the views of business and, very occasionally, affording the government an additional instrument in the pursuit of its policies.\textsuperscript{44} Even though the exclusive club of West Germany's "Big Three" private banks has grown somewhat during the last decade, West Germany's financial community is even more centralized than West German industry, and far more centralized than either the British or the American financial communities.\textsuperscript{45} The same can also be said of West German labor, which is organized by industrial sectors and united by a strong national organization. Finally, the differentiation between state and society in West Germany is a mixture of British theory and American practice. West Germany's Bundesbank, for example, operates within a constitutionally-designed power vacuum in which technocracy appears to control the mixture of public pulls and private pushes. Selected in the past from the directors of one of the three big private banks, the chairman of the Bundesbank is expected to protect the nation's holy grail—a low inflation rate. It was in the nature of things that until the early 1970s the Bundesbank tended to look for allies to the stability-oriented banking community, rather than to the big-spending federal bureaucracy.

The centralization of the French state, the decentralization of its private sector, and the symbiotic relations between the two, offer a contrast to West Germany. The distinctive characteristic of the French state is its centralization. It commands a field system of administration which reaches into the most remote corners of society. In contrast to West Germany, the central bureaucracy staffs and fully controls all institutions concerned with policy implementation. Centralization and the immobile, byzantine bureaucratic conflicts and rigidity it engenders have been the most important concern of France's administrative reform efforts since 1945. Unlike West Germany, France's private sector is decentralized. The collective organization of business in the past has not been notably successful.\textsuperscript{46} Even today


\textsuperscript{45}William P. Wadbrook, West German Balance-of-Payments Policy: The Prelude to European Monetary Integration (New York: Praeger, 1972). See also the special issue of the WSI Mitteilungen Vol. 28, No. 7 (July 1975).

\textsuperscript{46}Henry W. Ehrmann, Organized Business in France (Princeton: Princeton University Press,
the Conseil National du Patronat Francaise (CNPF) has not been altogether successful in mediating the conflict between large corporations and medium-sized and small firms. Large corporations with privileged political access have thus established direct contact with the state bureaucracy. In this they have been encouraged by the favorable treatment which the French state has extended to its "national champions" since the mid-1960s. French banking knows no equivalent to West Germany's three big private banks, since private commercial banking has always been an unrewarding business.\footnote{Charles-Albert Michalet, "France," in Vernon, Big Business and the State, pp. 105–25.} And unlike the West German unions, French labor is split into competing groups which still are not cut off from their roots in a syndicalist past. The differentiation between state and society, finally, is less complex than in West Germany, for the symbiotic relationship between the two takes place within the state bureaucracy rather than outside it. French banks are a good illustration; institutions such as the Caisse des Dépôts et des Consignations are intimately tied to the Finance Ministry and important for capital formation and the shaping of corporate investment decisions. And the Caisse is, of course, only the most prominent example of a host of public or parastatal banks which link the French state to the industrial sector.

Organizational characteristics such as degree of centralization do not adequately describe the distinctive character of the Italian state. In its original imitation of the Napoleonic state, in its size, and in involvement in the private sector, the Italian state resembles France. But in the systematic neutralization of its own power it can be likened to West Germany. French bureaucracy has been compared to a closed "honeycomb" structure which facilitates the criss-crossing of horizontal, vertical, and diagonal contacts in policy making.\footnote{Jean-Claude Thoenig, "La Rélation entre le Centre et la Périphérie en France: Une Analyse Systématique," Bulletin de l'Institut International d'Administration Publique 35 (December 1975): 77–123.} The Italian state bureaucracy could be likened instead to a "sieve" which is particularly susceptible to the formation of clientelistic arrangements with the private sector and political parties.\footnote{Joseph LaPalombara, Interest Groups in Italian Politics (Princeton: Princeton University Press, 1964). Luigi Graziano, A Conceptual Framework for the Study of Clientelism, Occasional Paper 2, Ithaca, Cornell University, Western Societies Program, 1975. Luigi Graziano, "Patron-Client Relationships in Southern Italy," European Journal of Political Research 1 (1973): 3–34.} As a result the Italian state bureaucracy prefers short-term, ad hoc arrangements to the long-term activist involvement characteristic of the French state or private (or semi-public) institutions in West Germany. These restrictions on policy instruments are reinforced by the incomplete centralization of Italy's private sector. The country's ideological fragmentation into Catholic, Socialist, and Communist political camps, for example, is reflected in the deep split of the Italian labor

movement. Italy's commercial banking system is weakly developed and it "plays a smaller part in Italy than in any other Western country."50 The organization of Italian industry, though, is of considerably greater importance for an analysis of foreign economic policy, as it deviates from this pattern of fragmentation. The institution which represents small enterprises, Confapi, is virtually frozen out of policy making. On the other hand, Confindustria, the spokesman of larger firms, represents more than 100,000 enterprises and is led by powerful individuals such as Agnelli of Fiat or, now, Carli, formerly of the Bank of Italy. The Italian business community includes also Italy's enormous nationalized industries run by corporations such as ENI or IRI. This nationalized sector is just one illustration of the low degree of differentiation which more generally characterizes state and society in Italy. The Italian model of differentiation combines the French model of incorporation of the private sector into the state with the West German model of delegation of public power to parastatal organizations acting mostly autonomously. The result is a distinct form of "clientelism" which includes both the colonization of society and the privatization of the state.51 The very size of ENI's and IRI's payrolls has made them increasingly susceptible to the DC's politics of patronage. Public enterprise and political entrepreneurship have thus become more and more intertwined; the result has been "patronage without political purpose."52 The same cannot be said of Italy's financial institutions, which are closely integrated with industry and only formally dominated by the state. The apolitical image cultivated by the Bank of Italy strongly resembles that of the West German Bundesbank and has succeeded in removing the Bank from narrowly defined partisan politics. By the same token, though, Italy's banking sector is an instrument which is not easily manipulated by the government or the state bureaucracy. The great power which the Bank of Italy wields, together with institutions such as the Cassa dei Depositi e Prestiti, is thus directed largely to objectives of its own choosing.

West Germany's reliance on an export-mystique, an undervalued currency, and a deflationary monetary policy result from the delegation of authority to powerful, "non-political," parastatal organizations such as the Bundesbank, which link a decentralized state with a centralized society dominated by peak associations of industry and the banks. The centralization of the state and the osmotic relations between state and society have favored in France, as in Japan, a strategy based on sectoral policy and administrative regulation. Although the decentralized character of French society has rendered French efforts less successful than Japan's, the bureaucracy has countered this liability by extracting resources from international

50 Shonfield, p. 180.
institutions such as the EEC. The internal fragmentation of the Italian state voids the use of the nationalized industries as an instrument of policy. That fragmentation, however, rewards and requires the improvisation of key individuals. As in West Germany, the reliance on monetary policy results from the prominent position of the Bank of Italy, which seems to stand above the political entrepreneurship pervading Italy and vitiating other instruments, such as fiscal or sectoral policy.

The character of the governing coalition conditions the objectives of foreign economic policy. Since the objectives of state policy and the interests of the business community are rarely in sharp conflict, it is impossible to talk of one prevailing, in general, over the other. But perceptible differences exist in the terms of accommodation between state and business, permitting some tentative rankings. In the definition of policy objectives these terms seem favorable to the Japanese and the French and unfavorable to the Italian state, with the West German and the two Anglo-Saxon states (whose powers were "unnaturally" enhanced by the side effects of international hegemony) falling somewhere in between.

In addition, though, strategies of foreign economic policy are conditioned by networks which provide the instruments of policy. Each of the six countries reveals a particular combination of centralization in state and society as well as differentiation between them. Table 3 summarizes the degree of centralization in the public and private sectors in these states. These six countries also differ in the degree of differentiation which separates state from society. Differentiation is low in Japan, Italy, and France; relatively high in Britain and West Germany; and at an intermediate level in the United States. This schematic summary suggests that, with regard to the instruments it can command, the role of the state in policy networks is strongest in Japan (with its centralization of state and society and lack of differentiation between them). The role of the state is also strong in France (which, however, lacks a degree of centralization in the private sector comparable to Japan). Suffering from different liabilities, the American, British, West German, and Italian states have fewer instruments at their disposal. And these instruments have only an indirect effect on particular sectors of the economy or on particular firms.

### III The historical evolution of domestic structures

A comparison of the two Anglo-Saxon countries and Japan yields clear differences in the character of the governing coalitions defining the objectives of foreign economic policy and the policy networks which provide policy instruments. The three continental states occupy an intermediary position between the United States and Britain on the one hand and Japan on the other. But in a narrower range of variation, West Germany, Italy, and France also reveal some of the same differences in strategy and structure which distinguish the United States and Britain from Japan. Since the clash of political strategies in the international economy is attributable to different domestic structures, it is worthwhile to examine the foundations of these structures in greater detail. These foundations are historical. The contemporary structures of advanced industrial states are rooted in some of the major historical transformations of the past: the elimination of feudalism, the unfolding of the Industrial Revolution, and the building of a modern state. Except in the most extreme circumstances, negotiations on current issues in the interna-
Table III The degree of centralization of state and society in six advanced industrial states

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<th>CENTRALIZATION OF SOCIETY</th>
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in the most extreme circumstances, negotiations on current issues in the international political economy will probably reflect, rather than reshape, these historically-evolved domestic structures.

How can one uncover the historical roots of the governing coalitions and policy networks of advanced industrial states? The logic underlying Samuel Huntington's political comparison of the United States and Britain, Alexander Gerschenkron's economic comparison of Britain and continental Europe, and Barrington Moore's historical comparison of America, Europe, and Asia suggests a mode of analysis which relates political and economic changes to one another.\(^{53}\) An analysis of the historical evolution of state and society in these six countries points to three alternative routes, corresponding to the three types of domestic structures which distinguish the Anglo-Saxon countries, the continental countries, and Japan. This array has a geographic dimension, stretching from West to East. But it has also a chronological dimension. It distinguishes between countries with a democratic past which experienced the Industrial Revolution early and a country with an authoritarian past which experienced it late, with the continental states occupying an intermediary position. The Anglo-Saxon states featured parliamentary forms of government and "atomistic" forms of capitalism favoring liberal strategies in the international political economy, while Japan experienced executive-based forms of government and varieties of "state capitalism" conducive to mercantilist strategies. These differences in historical evolution can be traced to the smaller differences

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which distinguish today’s “competitive” and “organized” forms of capitalism in advanced industrial states.54

Why does the coalition between business and the state in the United States and Britain give industrial and financial leaders such a prominent role? Why do the policy networks in these two countries fail to generate effective policy instruments?

Louis Hartz has offered an answer for the United States. Because the “first new nation” did not have to rid itself of a feudal past, the American business community prevailed easily.55 Although American business faced some scattered opposition, between the end of the civil war and the 1930s it reigned supreme. For two generations it had only a weak state and a weakly organized Left to contend with. In the process of industrialization the firm was the central actor; the principles of private property and the market went unchallenged. The total victory of American business left a deep mark on both victor and vanquished. The absence of any important organized opposition for so prolonged a period reinforced the decentralized structure of the business community and deepened hostility toward all forms of business or state organization. The seeming contradiction between the widespread antipathy of American business to the state and the intimate relation between top business leaders and the state is rooted in the very magnitude of the business community’s victory in the nineteenth century. Without a feudal past, America was unconstrained in fully developing its capitalism, becoming the center of “the enterprise system” first and, later, of “the free world.”

The organizational decentralization of American business is related to the organizational decentralization of the American state, which for so many decades it had dwarfed. The process of bureaucratic penetration of America at the federal level occurred late. It began in earnest with the cumulative impact of the Great Depression, World War II, America’s international hegemony, and the social welfare programs of the 1960s. This belated beginning occurred in a business civilization which reluctantly came to tolerate the federal bureaucracy as long as the pursuit of the state’s objectives in the international arena did not conflict with business interests. That reluctance severely circumscribed the instruments of state power.

Unlike the United States, the British bourgeoisie had to rid itself of the shackles of feudalism inhibiting its entrepreneurial drive. But in contrast to the continental countries and Japan, British feudalism was defeated relatively early. Even though it lost the political struggles over the capitalist organization of the


economy and the constitutional supremacy of Parliament, the economic and political base of the British aristocracy diminished only very gradually in the nineteenth and twentieth century.  

In matters of economic policy, however, the views of the British bourgeoisie, in the form of Benthamite and Manchester Liberalism, reigned supreme. The free interplay of demand and supply determined production and distribution in all markets and the central economic actor was the firm. The passivity of the state in economic affairs gave the British bourgeoisie the same luxury of organizational decentralization characteristic of America. Its most formidable opponent arose, in fact, not in Whitehall but in the City. Over time, political power shifted from industry to finance with its international orientation. Unlike German banks, the growth of a powerful financial community was geared not to financing investments at home but to facilitating capital exports. As was true of America after 1945, both business (that is, finance) interests and state ideology converged, preferring liberal imperialism. But in contrast to America’s “Tudor polity,” modern Britain became a party state, with political parties controlling the institution which embodied the sovereignty of the nation and party leaders, rather than industrial or financial magnates, becoming the classe politique.

Parliamentary sovereignty and the early extension of suffrage signalled the democratic character of the British state and circumscribed the growth of its central bureaucracy. In contrast to the United States, where political participation preceded bureaucratic penetration (as well as the continental countries and Japan, where that order was reversed), the creation of a modern British civil service coincided with the political mobilization of a mass electorate in the latter part of the nineteenth century. Situated in the capital and designed to support the government in carrying out its policies, the centralized character of Britain’s modern bureaucracy inhibited the osmosis with private groups characteristic of American bureaucracy. On the other hand, its previous history of administrative decentralization and its prescribed role as neutral arbiter, rather than creative shaper, of society inhibited the cultivation of policy instruments which, to different degrees, are at the disposal of the continental countries and Japan.

Japan has traversed a very different route. The difference in historical evolution helps to explain why the state bureaucracy and party leaders have become such powerful allies of the business community, and why the policy network which spans public and private sectors gives policy makers a wide range of effective instruments.

The strength of Japanese feudalism and its belated rejection in the last third of the nineteenth century are in striking contrast to America and Britain. Feudal-

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57 Huntington, pp. 93–139.

ism's strength was due to the centralized and bureaucratic institutions which led to the ossification of Japanese society in the Tokugawa era. But the legacy of this bureaucratic feudalism was the pacification of the nobility and the consolidation of Japan's administrative structure. The centralized bureaucratic regime which has marked modern Japan ever since the Meiji Restoration thus has very deep historical roots. The Meiji Restoration is a classical example of what Barrington Moore calls a revolution from above.\(^{59}\) To allow for capitalist development the shackles impeding the mobility of factors of production, including labor, under feudalism were loosened. The state invested heavily in rapidly expanding an economic infrastructure of transportation and communication which was a necessary precondition for industrialization. Although the state played a direct entrepreneurial role in some industries which it regarded as critical, such as steel, on the whole it preferred to mastermind an indirect industrial development strategy. It could then quickly transfer directly-operated pilot ventures or risk-sharing arrangements to private entrepreneurs. Critical to the success of this form of "indirect management" was a state-controlled credit market. In contrast to America, in Japan the state, not business, enjoyed hegemony in the delayed Industrial Revolution. Unlike Britain, the instincts of the banking sector were directed toward industrial investment projects in the home market rather than capital export. For Okubo, Japan's Colbert, as for most of his generation, industrial wealth and state power were mutually reinforcing. The slogan of the time was "a rich country and a strong army," symbolizing an industrial samurai spirit which, in demilitarized form, is also characteristic of modern Japan since 1945.

The centralized structure of Japan's business community and its intimate links to the public sector reflect the organizational presence and active involvement of the Japanese state in charting the country's path into an industrial era. A system of centralized holding companies (zaibatsu), dominated by a small number of prominent families in the late nineteenth century, joined the state bureaucracy and the military in charting Japan's future. Under American occupation the military was eliminated as an important political actor and the zaibatsu was dissolved after 1945. The business community in contemporary Japan is thus left without a rival in the private sector.\(^{60}\) In contrast to both America and Britain, the penetration of Japanese society by the state bureaucracy preceded organized political participation. The growing influence of political parties in the 1920s provided a brief interlude, as the "military-bureaucratic" complex proved its decisive power with the first stirrings of crisis. Only since 1945 have party leaders of the conservative camp, united since 1955 in the LDP, become permanent members of Japan's governing coalition. In Japan's expanding oligarchy, they are relative newcomers.


\(^{60}\) Yanaga, pp. 32, 87–88.
The contrast between the historical evolution of the early industrializing, democratic Anglo-Saxon countries and a late industrializing, authoritarian Japan can also be found among the three continental states. While West Germany's affinity to the Anglo-Saxon mold largely results from occupation and partition in 1945, the resemblance between France and Japan is rooted in the long, if intermittent, tradition of activism of the French state bureaucracy. Italy's delayed national unification and industrial development mix elements which, in a different context, can also be found in the German and French patterns.

Why does the coalition between business and the state in West Germany elevate the business community to such a prominent position? Why does the network linking state and society deny West German policy makers, like those in Britain or America, powerful policy instruments?

The main answer to these questions lies in the very recent past. In its historical evolution, as Barrington Moore has noted, in many respects Germany resembles Japan.\(^{61}\) As was true of Japan, Germany's feudal past weighed heavily on its industrial revolution. The Prussian aristocracy, for example, participated in "the second founding" of the German Empire in 1879—the (in)famous coalition between iron and rye—which united conservatives in the industrial and agricultural sectors and propelled Germany toward economic protectionism, the naval arms race, foreign expansion, and World War I. But partition after 1945 was brutally effective in removing the Junkers from West Germany's political scene. The consequences of defeat and occupation were thus more visible and lasting in Germany than in Japan. The prominence of the West German business community today is not due to an early bourgeois revolution but to a belated military occupation.

This prominence results, at least in part, from the organizational centralization which business imposed on itself in the late nineteenth century. The Great Crash of 1873 spurred German business to form its first peak association in 1876, some ninety years before the creation of the Confederation of British Industries (CBI) in 1965. Industrial strategies were mapped by large firms, often organized in cartel-like organizations, masterminded by investment banks which, unlike Britain's, formed an economically integrated whole with the industrial sector. These organizations, unlike Japan's, were less open to direct or indirect state intervention.\(^{62}\) Two world wars, Nazism, occupation, half-hearted efforts of deconcentration and decartelization, and a generation of economic prosperity have done very little to diminish the integrated industrial-financial structure as West Germany's central economic actor.


\(^{62}\) Heinz Josef Varain, ed., Interessenverbände in Deutschland (Cologne: Kiepenheuer and Witsch, 1973).
The impact of the occupation has also weakened the erstwhile powerful bureaucratic core of Germany. The federal government's creation in 1949 occurred after a number of important jurisdictional claims in economic, cultural, and social policy had been made by other public actors, such as the Bundesbank and the state governments.53

World War II was then a decisive watershed in German history which has contributed greatly to the remaking of German industriousness in America's image. As a "people of plenty," West Germans have come to subscribe to America's "polities of productivity."64 But it took the elimination of the Prussian Junkers, a great weakening of the central bureaucracy, and the rise of stable party government to achieve that end. Even today, though, there are traces in the West German policy network which resemble the Japanese model more than the Anglo-Saxon one. The tight interlock between business and finance and their occasionally intimate relations with the state bureaucracy remind us that after only one generation West Germany's historical convergence with the West remains superficial.

Although smaller than the gulf separating the two Anglo-Saxon countries and Japan, the difference in the political strategies and domestic structures shaping West German and French conduct in the international political economy is also striking. Why does the coalition between French business and the state accord the state bureaucracy such a prominent place? Why does the policy network spanning state and society provide a much greater array of policy instruments than can be found in the hands of West German policy makers across the border?

The history of the French administrative state is the most prominent feature of French political development and provides part of the answer. The French king subordinated his aristocratic opponents earlier than did the Prussian king. Like Japan and unlike Britain, the landed aristocracy was induced to choose social status over political power by leaving the estates in the countryside, attending the king at court, and thus squandering its economic resources.65 The French Revolution tried to relegate the aristocracy to a stance of political opposition from which it failed to escape either into the world of politics, as in Britain, or of industry and finance, as in Japan.

The Napoleonic reforms at the beginning of the nineteenth century endowed France with a modern, centralized state machinery which has operated since then in a milieu in which state activism has, alternately, been expected and dreaded. At least since Colbert's mercantilism Frenchmen have subscribed to the view that the engine of industrial progress is the state, not the market. In some historical periods,
including the present, France has developed what Weber called a "politically oriented capitalism" in which the state was centrally involved in economic affairs.\textsuperscript{66} But in other periods state activism was less evident. In entrepreneurial zeal, the "absolutist coalition" still controlling the state bureaucracy in the Third Republic never equalled the Japanese samurai-administrators.\textsuperscript{67} Unlike the German business community, French business operated in a conservative national climate of peasants and shopkeepers and failed to overcome its position of relative economic backwardness (compared to Britain and Belgium) in the industrial revolution. With some notable exceptions, French business continued to operate on a small scale, remained relatively decentralized, and adhered to a very traditionalist outlook. The French equivalent to Prussia's coalition between iron and rye, the Méline tariff of 1892, typified the way in which different social sectors were balanced, international competition was neutralized, and civil tranquility and peace were insured. Only since 1945, and with increasing rapidity since 1958, has France experienced its Meiji Restoration.\textsuperscript{68} The conservative orientation toward the market is being supplemented by a still small but rapidly growing group of modern industrialists who view the state bureaucracy as an indispensable ally in charting French foreign economic policy.

In a comparative analysis of political strategies and domestic structures, Italy appears to hold an intermediary position between West Germany and France. Why, despite its size, is the state so passive in its coalition with the business community? Why does the network linking public and private sectors leave Italian policy makers without instruments despite considerable state involvement in the economy?

Unlike France and Germany, Italy's uneasy accommodation between feudalism and industrialism includes a territorial conflict between the industrially developed North and a backward South. Southern landowners did not enjoy the combination of political power and social prestige characteristic of the Northern aristocracy and, to a much greater degree, of the Prussian Junkers. But neither did they suffer the momentous defeat which the French aristocracy experienced in 1789. Although the influence of the Southern aristocracy in the development of Italy's industrial development remained small in the nineteenth century, the South has left an indelible mark on the development of the Italian state bureaucracy and party system.


\textsuperscript{68} I would like to thank Miles Kahler for pointing out to me this connection between the Gaullist reform period and the Meiji Restoration. His comment was prompted by Ellen Kay Trimberger, "A Theory of Elite Revolutions," \textit{Studies in Comparative International Development} Vol. 7, No. 3 (1973): 191-207.
Conclusion: domestic structures and strategies

This was not altogether surprising; the meekness of the Italian bourgeoisie was due not simply to its small size but to the late arrival of the Industrial Revolution south of the Alps. As in Germany, Italy's belated national unification was not tied to the middle class and the Risorgimento but to the diplomatic maneuvers of Cavour. But Piedmont lacked Prussia's power. Faced with the determined opposition of the Vatican and Southern indifference, the Northern reformers (both aristocrats and bourgeois) needed support. The blocco storico, the Italian equivalent to the coalition between "iron and rye," united a gradually industrializing North with a semi-feudal South. Compared to Britain, France, and Germany, Italy's industrialization occurred late and lacked vigor. Despite the liberal orientation of some segments of the Northern bourgeoisie, the market principle lost out to cartel arrangements among industrial producers, heavy involvement by investment banks, and government assistance and subsidies. Southern landowners became, then, an indispensable ally in the coalition which was formed after 1871. They were rewarded by noninterference in local affairs, policy protection, funds for patronage, and, later, favorable access of the Southern middle class to jobs in the central bureaucracy.

The consequences of the bargain between North and South are still pervasive today in the character of the Italian state and party system. In the absence of indirect mechanisms of social control, such as the market or the state, the system of directly exchanged favors between patron and client was not seriously challenged in Italy's South. The extension of Southern political practice to Rome also, with the passage of time, appeared in the large, decentralized, patronage-ridden state bureaucracy, which, linked intimately to private groups, lacked the administrative tradition and esprit de corps of the French state. World War I, Fascism, and World War II have brought enormous changes. But they have failed to overshadow the political consequences of Italy's incomplete conquest by the South.

Each of these six advanced industrial states has traversed a distinct path to the present. A comparison of the United States and Britain on the one hand and Japan on the other suggests a number of differences. Within a smaller range of variation, the historical experience of the three European countries also yields some of the same differences. But the exceptions (which are more numerous for the second set of countries than for the first) remind us that reality only approaches to varying degrees the ideal types described here; it never coincides with them.

71 Besides the sources in footnote 57, this section is also heavily indebted to Gerschenkron, Continuity in History, pp. 77–97.
Early industrializers like Britain and the United States, which created parliamentary institutions, have weak or nonexistent feudal structures; they experienced an early commercialization of agriculture and early elimination of a dominant aristocracy. Late industrializers, with executive forms of government, like Japan, feature strong feudal structures, late commercialization of agriculture, and late elimination of a dominant aristocracy. Early industrializers are distinguished by gradual economic growth, relatively small-scale enterprises, low industrial concentration, few restrictions on competition, and an emphasis on consumer good industries, at least in the initial stages of industrialization. Late industrializers like Japan show spurts of explosive growth, relatively large-scale enterprises, high industrial concentration, numerous restrictions on competition, and an emphasis on heavy industry. Because the technological and financial requirements of production are small, the firm is the central economic actor among early industrializers. Among late industrializers the capital requirements of large firms were so great that the banking sector came to occupy the commanding heights of the economy. Since foreign competition often threatened the development of infant industries of these countries, the state was thrust into the midst of industrial development. Thus the central economic organizations among late industrializers are the firm, investment banks, and the state bureaucracy.

The character of state activity influences the organization of business and unions in both early and late industrializers. The passivity of the state in directing industrial growth makes for an organizationally decentralized business community. On the other hand, state activism in managing the economy, characteristic of late industrializers, facilitates a centralized organization of business. Labor movements among early industrializers tend to be decentralized, reformist, detached from political parties, and politically incorporated into a state apparatus which, consequently, needs to be less repressive. Among late industrializers, labor movements tend to be centralized, radical, attached to political parties, and excluded from a state machinery which must therefore be more repressive.

At the root of these differences lies the different character of the state in early and late industrializers. Among early industrializers political parties were instruments of political mobilization from the bottom; a progressive coalition focused on political participation rather than bureaucratic penetration. Among late industrializers political parties were instruments of political implantation from the top; an absolutist coalition concentrated its efforts on bureaucratic penetration rather than political participation. Parliamentary-based state authority favored strategies of non-intervention and "laissez-faire" in the economy among early industrializers. Executive-based state authority preferred strategies of intervention and "faire-faire" among late industrializers. These institutional differences have behavioral consequences. Early industrializers tend to focus their resources on consumption and wages: late industrializers emphasize investment and profits. Government programs among early industrializers emphasize short-term goals, distribution, and large social welfare expenditures, while late industrializers emphasize long-term goals, accumulation, and small welfare expenditures.
IV Conflict and change in foreign economic policy

Change in foreign economic policy partly results from conflict in domestic politics. Strategies of foreign economic policy are reflections of the "stress and contradiction" in domestic structures; but they are also attempts to cope with stress and contradictions. The very concept of domestic "structure" is in fact ambiguous. It describes the stress in the relations between business and the state as well as the contradiction between organized capital and organized labor. Taken as a whole, the papers in this volume show that the main pillars of power in the advanced industrial states—the state, business, and organized labor—have largely reinforced one another throughout the postwar era with organized labor playing a marginal role. For a few decades pluralist bargaining seemed supreme. Recent developments are usefully reminding us of the stresses and contradictions which are inherent, although at times invisible, in the domestic structures of advanced industrial states.

One source of stress in the relations between business and the state derives from the conflict between export-oriented, technologically advanced industries and import-competiting, technologically backward ones. In all advanced industrial states industries such as textiles clamour for protection. The basic logic of the international division of labor in the postwar international economy has tended to weaken technologically backward industries in advanced industrial states. This conflict has not been restricted to the business community. In their defense of jobs unions in declining sectors typically enter into alliance with producers. Furthermore, when confronted with a united front of business and labor, the state is normally forced to take action. But the objectives and instruments of policy are crucial in determining the character of the state's response. The use of tariffs and quotas characteristic of the Anglo-Saxon states and some continental countries responds to domestic political pressures by buying time without addressing technological change as the root of the problem. The pursuit of a sectoral policy in selected parts of the economy, which is characteristic of Japan and France, emphasizes long-term over short-term considerations, even at the cost of temporarily intensifying domestic political conflict. Irrespective of the state response, technologically advanced, competitive, export-oriented industries in all major advanced industrial states have prevailed. The very success which leading firms in these industries have enjoyed in the 1950s and 1960s explains why the forces of protectionism have scored only a few, peripheral victories since the early 1970s. In a future promising lower rates of economic growth, the conflict between export-oriented and import-competing industrial sectors and firms—and with it the conflicting demands made on the state—will probably intensify.

A second source of stress in the relations between business and the state derives from the muted conflict between industry and finance. The creation of the Euro-Dollar market has to some extent freed large firms from the constraints imposed by national banking institutions. Free access to a large capital market was particularly important for firms with an unfavorable debt-equity ratio, as, for example, in the Federal Republic. At the same time, though, the growth of the Euro-Dollar market has led to a subsequent increase in the international operation of banks.\textsuperscript{73} The British experience in particular suggests that the effect of these international operations on total profits is less important than the increase in the political power of central banks, who now, among other things, manage the flow of Petro-Dollars.\textsuperscript{74} In an era where currency values are determined by a system of "managed floating," the strategic importance of central banks has increased in all advanced industrial states. Recent changes in these complex relations between industry and finance often affect the state, as in West Germany, where they seem to have decreased state power. In Japan, on the other hand, the effect of these changes is less easily gauged: they may have affected only the relative standing of different sections in the Finance Ministry.

Another potential source of conflict and change in foreign economic policy is inherent in the relation between organized labor and business. The exercise of American power after 1945 reinforced domestic political impulses in Europe and Japan to assign organized labor no more than a marginal role in the postwar international political economy. The American formula of the politics of productivity was organized around the key concept of aggregate welfare which, to different degrees, gave organized labor some of the dividends of economic growth. As a result, the absolute level of per capita income increased while relative income differentials remained largely unchanged.\textsuperscript{75} As long as this institutional arrangement delivered the goods, the uneasy accommodation between the Anglo-Saxon mass consumption and the European and Japanese inclination toward investment was successful. But when, for a variety of reasons, these dividends of growth diminished from the early 1970s on, the internal contradictions of the entire

\textsuperscript{73} Gerd Junne, \textit{Der Eurogeldmarkt: Seine Bedeutung für Inflation und Inflationsbekämpfung} (Frankfurt: Campus Verlag, 1976).

\textsuperscript{74} Janet Kelley, \textit{Bankers and Borders: The Case of the American Banks in Britain} (Cambridge, Mass.: Ballinger, in press), Table 8.1.

in institutional arrangement centered around the concept of aggregate welfare became increasingly obvious.

In none of the six advanced industrial states analyzed here has organized labor been an important part of the governing coalitions which have defined policy objectives. Consequently it has played little more than a marginal role in the process of policy implementation. With the possible exception of Britain, until the early 1970s organized labor delicately mixed tacit assent with active cooperation in backing the foreign economic policy strategies of the dominant national coalitions. In America and West Germany in particular, unions have accepted economic gains without worrying unduly about questions of long-term political strategy. As long as the overall performance of the economy was relatively satisfactory, they have, as producers, participated in a silent "great coalition" favoring a liberal export policy. Even when the political influence of organized labor was rising in West Germany after 1966 and 1969, changes in policy were not observable. In Italy, France, and Japan, on the other hand, the contradiction between organized labor and business was much sharper. Strong, indigenous Communist parties and labor movements explain labor's exclusion from participation in any aspect of foreign economic policy making. Worker militancy was, to varying degrees in the different countries, diluted by the dividends of growth. The growing strength of the Italian and French Left in recent years and the continued radicalism of the Japanese Left illustrate the contradictions in the domestic structures of "late industrializers" that have remained closer to the center of politics than is true of "early industrializers."

Changes in the structure of domestic labor markets have severely limited the success of the liberal international political economy and the acquiescence of organized labor on which it was partly based. The slowdown in rural-urban migration, the achievement of full employment, and an accelerating rise in wage levels in the 1960s made all advanced industrial states confront the problem of orchestrating manpower shifts from low-productivity to high-productivity sectors in industry. Japan and France have responded with a policy of sectoral transformation which has relied primarily on the allocation of state-controlled investment funds. In the other countries state bureaucrats have generally been more cautious and union hostility could not be as easily discounted. Nowhere in these six states does one encounter an active manpower policy with which smaller states, such as Sweden, have attempted to confront technological change head on. Instead, in search of greater profits, American and British multinational corporations (later followed by German and Japanese firms) have followed a strategy of capital exports while European governments, in particular, have acceded to the import of cheap labor. Both these measures have weakened the role of organized labor in domestic politics.

\cite{footnote}

These stresses and contradictions in domestic politics complement increasingly important sources of conflict and change in the international political economy. Many of the conflicts result from an incremental accumulation of political and economic changes over the last twenty-five years. Uneven developments in the division of labor among Northern countries have encouraged a projection of domestic impulses into the international political economy. American and French exports of conventional weapons and West Germany's aggressive search for international outlets for its nuclear reactor industry are motivated largely by considerations of export performance, employment, and profits rather than international security. Japan's foreign investment strategy reflects its insecure access to raw materials as well as the rising domestic opposition to the environmental hazards of an unrestrained policy of economic growth. Political stalemate in Britain and Italy seems to point to continued reliance on international credit arrangements in the years ahead.

The oil crisis and less developed countries' pressures for a New International Economic Order (NIEO) have accentuated these uneven developments among the major OECD states, creating further sources of conflict. The British "letter of intent" submitted to the International Monetary Fund (IMF) in 1969 and the conditions attached to the 3.9 billion dollar IMF loan in 1976 have generated widespread resentment of external interference in British politics especially among the left wing of the Labour Party. In lending money to Italy, West Germany's thinly veiled insistence that the Italians follow a policy of deflation and continue to exclude the Communist Party from government has had a similar effect. France and Japan, which depend heavily on their export markets, are under pressure from their trading partners to divert an increasing amount of resources to preserve a liberal international economy in order to achieve their more narrowly-defined national growth objectives.

Multiple sources of conflicts are bound to change foreign economic policies of advanced industrial states in the years ahead. The tranquility in which the politics of productivity experienced its greatest triumphs in the 1950s and 1960s is rapidly disappearing. The domestic structures which we have identified as characterizing the Anglo-Saxon states, the continental states, and Japan will have major importance in determining political strategies in the international economy. In comparison to the Anglo-Saxon countries and West Germany, the concentration of political and economic power typical of industrial late-comers has left them better equipped to cope with external challenges. At the same time, though, that concentration of power makes the domestic structures of these late-comers more brittle and their political strategies more susceptible to fundamental change. Political strategies reveal the character of the domestic structures which they are designed to strengthen. West German stability and the British crisis illuminate what holds true for the advanced industrial states in general: foreign economic policy raises basic questions about the legitimation of power and the accumulation of plenty and thus shapes the future governance of advanced industrial states.