Everyone knows that America is a country in love with money, and that its weak government primarily adopts policies that benefit the wealthy. Europeans seem to be particularly convinced of this. From newspapers to the most exalted halls of learning all across Europe, the legend abounds that Americans do not care about community, are not bound by norms of redistribution, and do not want to tie down their large corporations in any way. This laissez-faire, anti-government attitude is what explains the higher rates of poverty in the U.S., these scholars suggest, and explains as well the rise of the right from Ronald Reagan through the Tea Party.

The only problem with this explanation is what to do with all the exceptions. Sweep them under the rug, seems to be the answer of scholars committed to the idea that a national culture of individualism and respect for the market drives American history. But so many exceptions have piled up at this point that the rug does not seem large enough to cover them.

Case in point: as Jens Beckert shows in *Inherited Wealth*, the United States actually had more progressive rates of taxation on inherited wealth than France or Germany (Princeton University Press, 2007). Sven Steinmo, investigating the tax systems of the U.S., Britain, and Sweden, found that this seems to be the case for the tax system as a whole: “to my amazement, [I] found that the United States received more revenue from corporate taxes…than virtually any other OECD democracy…The United States must have one of the most regressive tax systems in the democratic world. But I could not find any evidence to support this proposition….Sweden had the heaviest and most regressive VAT in the world…” (Taxation and Democracy, 1993, New Haven, CT, Yale University Press, p.xiv; see also Mendoza, Razin, and Tesar, “Effective Tax Rates in Macroeconomics” in Journal of Monetary Economics 34(3): 297-323; Lindert, Peter, 2004, Growing Public, Cambridge University Press; OECD Tax Ratios: A Critical Survey, 2001; Sorensen, Peter Birch, 2004, Measuring the Tax Burden on Capital and Labor, MIT Press).


The U.S. was an early pioneer in efforts to protect the environment (although it has since fallen behind): Richard Benedick shows that it was the U.S. that led the successful international effort to protect the ozone layer, against EU opposition (Ozone Diplomacy, 1998, Cambridge, MA: Harvard University Press).

American bankruptcy law has always been more friendly to debtors (who are generally lower in the socio-economic spectrum) than to creditors (who are generally wealthier) than any other country: “The United States has been the most notable exception (outlier?), with a liberal ‘fresh start’ policy for individual consumer debtors in effect since 1898 … [in other countries] Debtors have never been able to get an immediate debt discharge as in the States, facing instead various restrictions imposing limited, conditional, and suspended discharge rules” (Tabb, Charles J., 2005, “Les-

Indeed, the trope of the market-friendly U.S. is so prevalent that scholars are always surprised when they actually conduct comparative studies. Like Sven Steinmo, Rawi Abdelal notes his shock at discovering the truth in his study of the dismantling of capital controls: “I assumed that I would find ample evidence of American leadership, Wall Street’s enthusiasm, the U.S. Treasury’s guidance, Rightist politicians, and ‘neoliberal’ economists and policymakers. I found nothing of the sort. Instead, I discovered European leadership in writing the liberal rules of global finance, Wall Street’s caution and skepticism, the U.S. Treasury’s ambivalence…” (Abdelal, Rawi, 2007, Capital Rules: The Construction of Global Finance, Cambridge, MA: Harvard University Press, xi). Andreas Busch writes: “Contrary to popular conceptions of economic life in the United States, American banks operate in a highly regulated banking environment” (33); this has been the case since the Great Depression. In the U.K. no formal regulatory agency exists at all to regulate banks, and Germany and Switzerland both responded to the Great Depression with lighter regulation than the U.S. (Banking Regulation and Globalization, 2009, Oxford: Oxford University Press). European banks have never had to contend with regulations against branch banking or regulations separating commercial and investment banking, for example. (On financial regulation see also Jackson, Howell E., 2007, “Variation in the Intensity of Financial Regulation: Preliminary Evidence and Potential Implications” in Yale Journal on Regulation 24(2): 253-291; Coffee, John C., Jr., 2007, “Law and the Market: The Impact of Enforcement” in University of Pennsylvania Law Review 156(2): 229-311).

Historian William Novak sums up this new generation of scholarship: “the American state is and always has been more powerful, capacious, tenacious, interventionist, and redistributive than was recognized in earlier accounts of U.S. history” (“The Myth of the ‘Weak’ American State” in American Historical Review 2008).

The point of this new generation of scholarship is that no country – not even the U.S. – has made capitalism work without heavy state intervention. If we begin from that starting point, we get a much better understanding of exactly how and why capitalism develops, and why it has developed differently in the United States and Europe. More specifically, we get a more complete understanding of precisely why the United States has a less well developed welfare state, and consequently greater poverty, than any of the countries of Europe.

In my recent book The Land of Too Much I argue that the American state is not less interventionist in general, but American state intervention takes a peculiar form: it is agrarian state intervention, a progressive set of interventions driven by Southern and Midwestern farmers in the early nineteenth century, and it had surprisingly non-progressive results. It was American farmers who upheld the tradition of progressive taxation and adversarial regulation, but these interventions ended up undermining the public welfare state.

The book begins by noting that from the mid-nineteenth to the mid-twentieth centuries, the key difference between the U.S. and Europe was the astonishing growth rates of the former, compared to the economic difficulties of the latter. American productivity was growing by leaps and bounds, and new developments in refrigeration and transportation brought that productivity all over the world, especially in agricultural products. But because of the gold standard, instead of leading to prosperity for all, that productivity led to price declines everywhere. European farmers were crushed by the flood of American grain. They joined coalitions in favor of protectionism. American farmers were also protectionist, but protectionism was not enough of an answer for them, because it was their own domestic productivity that was causing declines in the prices of their products.

What followed in the U.S. was a period of soul searching. How can it be, observers wondered, that producing more goods could actually cause such problems? So much effort had gone into increasing productivity in the nineteenth century, and now that increased productivity lay rotting in the fields. During the Great Depression this paradox became almost unbearable. As populist Senator Huey Long of Louisiana wondered, how could there be corn going unsold while people were hungry? Cotton so abundant that farmers could not get rid of it, and yet children dressed in rags throughout America?

What emerged from this puzzlement was a political economy focused on breaking up concentrations of wealth through progressive taxation and through heavy regulations on banks and financial institutions. But the great irony of this story is that these instances of greater regula-
tion, regulation against the wealthy, combined to under-
determine the welfare state.

Agrarian politicians voted on several occasions against na-
tional sales taxes because of their regressivity. But regressive sales
taxes, particularly the value added tax, underpin the revenue
base of every other advanced industrial country. There are
three reasons why progressive taxation undermines the state.
First, scholars such as Harold Wilensky have argued that pro-
gressive taxation creates more political protest against taxes,
whereas the relative invisibility of sales taxes dampens political
protest, and there does seem to be behavioral evidence sug-
gesting that the visibility of taxes and fees is a key factor in the
degree to which they generate protest. (Junko Kato has ar-
gued that this was particularly the case in the post-war period,
because after the onset of economic crisis in the 1970s it
became difficult to shift to a different tax base: thus, it was
those countries that had selected value added tax before the
1970s that did not see widespread protest against taxation.) A
second reason why sales taxes lead to a larger state is that they are less economically distorting, as authors such as Peter
Lindert have argued. They tax consumption, and thus encour-
age savings, which promotes economic growth. And finally,
as I show in detail in the book, progressive taxes led to a sys-
tem of tax preferences (exemptions and loopholes in the tax
code) that undermined the welfare state.

Meanwhile, agrarians also voted for heavy regulation of
banking and the financial sector; for example, the Glass-
Steagall regulations separating commercial and investment
banking, or the McFadden act which prevented branch
banking across state lines. These curiously stringent regulat-
ations were anomalies, not seen in European countries. The
result of these regulations was that there were many more
“unit banks” in the U.S., banks that were small and local
and not part of a larger network of branches. But as econ-
omists point out, policies such as branch banking actually
make a banking system more stable: unit banks are more
susceptible to downturns in local conditions, and may not
survive droughts or runs on the bank. Branch banks have
deeper pockets and are more diversified against local con-
ditions. For these reasons, greater regulation of finance in the
U.S. ended up causing a crisis of the financial sector –
not seen in countries like Canada where the financial sec-

tor was less regulated – which required the state to step in
and resurrect finance through the creation of an infrastruc-
ture of home mortgage credit. This underpinned the
“mortgage Keynesianism” of the American state that de-
veloped over the next several decades, and which – in a
process traced out in more detail in the book – under-
mined the development of the public welfare state. That
under-developed public welfare state is the reason for
greater poverty in the U.S.

Meanwhile, in return for the development of the public
welfare state, European corporations received a political
economy biased against consumption, and towards produc-
tion. After the Second World War several European coun-
tries specifically aimed to reduce private consumption and
channel all profits towards exports. This was a strategy of
recover after the Second World War, and it was enormously
successful. Part of this strategy included the looser regula-
tions documented above. These policies focused on promot-
ing producers at the expense of consumers, to the point that
scholars have called these European policies “supply side.”

Understanding this history sheds new light on some im-
portant episodes in history. For example, it helps to explain
the movement for deregulation under Ronald Reagan.
American corporations were in fact more heavily regulated
in the 1980s than European corporations, which means that
Reagan was actually pushing the U.S. closer to the European
pattern. This history of a Europe focused on production also
explains why Germany has been so resistant to Keynesi-

an stimulus in the current moment: welfare spending in Ger-
many was never part of a Keynesian logic. Rather, it was a
side effect of a political economy focused on promoting
investment and production, and Keynesian stimulus spend-
ing is exactly the opposite of that.

One of the strongest legacies of the neoliberal movements of
the 1980s is that they have made all of us forget America’s
radical past. Many scholars now seem to sincerely believe the
Tea Party version of events – that government intervention in
the public interest conflicts with American values or American
traditions. But Americans have been vociferous about using
the state in the public interest throughout this nation’s histo-
ry. The challenge for scholars now is to develop new theories
of capitalism that can explain and incorporate this surprisingly
radical American history.

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