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**Article**

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# Radical America

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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).

In corporate regulation, David Vogel writes "the United States remains distinctive in that its rules and regulations [on corporate behavior] tend to be consistently stricter than those of other capitalist countries, and it provides more opportunity for political participation by nonindustry constituencies" (*National Styles of Business Regulation*, 1989, Ithaca: Cornell University Press, p.9). In a study of mining regulation John Braithwaite notes "the U.S. enacted probably the world's most punitive statute for regulating business, the 1969 Federal Mine Safety and Health Act... the broader historical trend...in the United States has been toward increasing punitiveness...[in Great Britain and France there has been] a much longer shift away from prosecution" (*To Punish or Persuade*, 1985, Albany: State University of New York Press, p.3). (On corporate regulation see also Kelman, Steven, 1981, *Regulating America, Regulating Sweden: A Comparative Study of Occupational Safety and Health*, Cambridge, MA: MIT Press; Brickman, Ronald, Sheila Jasanoff, Thomas Ilgen, 1985, *Controlling Chemicals: The Politics of Regulation in Europe and the United States*. Ithaca: Cornell University Press; Badaracco, Joseph L., Jr., 1985, *Loading the Dice: A Five-Country Study of Vinyl Chloride Regulation*, Boston, MA: Harvard Business School; Echols, Marsha A., 1998, "Food Safety Regulation in the European Union and the United States" in *Columbia Journal of European Law* 4:525-544; Daemmrich, Arthur A., 2004, *Pharmacopolitics*. Chapel Hill and London: University of North Carolina 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-

sons from the Globalization of Consumer Bankruptcy” in *Law and Social Inquiry* 30: 763-764; Niemi-Kiesiläinen, Johanna, 1997, “Changing Directions in Consumer Bankruptcy Law and Practice in Europe and U.S.A.” in *Journal of Consumer Policy* 20: 133; Skeel, David A., Jr., 2001, *Debt's Dominion: A History of Bankruptcy Law in America*, Princeton: Princeton University Press).

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 undermine the welfare state.

Agrarian politicians voted on several occasions against national 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 progressive 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 suggesting that the visibility of taxes and fees is a key factor in the degree to which they generate protest. (Junko Kato has argued 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 encourage savings, which promotes economic growth. And finally, as I show in detail in the book, progressive taxes led to a system 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 regulations 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 economists 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 conditions. 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 sector was less regulated – which required the state to step in and resurrect finance through the creation of an infrastructure of home mortgage credit. This underpinned the “mortgage Keynesianism” of the American state that developed 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 production. After the Second World War several European countries 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 regulations documented above. These policies focused on promoting 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 important 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 Keynesian stimulus in the current moment: welfare spending in Germany 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 spending 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 history. The challenge for scholars now is to develop new theories of capitalism that can explain and incorporate this surprisingly radical American history.

**Monica Prasad** is Professor of Sociology and Faculty Fellow at the Institute for Policy Research at Northwestern University. Her most recent book is *The Land of Too Much: American Abundance and the Paradox of Poverty* (Harvard University Press), winner of several awards including the European Academy of Sociology Award, the Allan Sharlin Memorial Award, and the Barrington Moore Award.