Farmers and Capitalism

Carney, Richard

24 September 2007

Draft: September 24, 2007

Farmers and Capitalism

Richard W. Carney*

iscarneyr@ntu.edu.sg

Abstract: Most analyses of modern capitalism focus on bargains struck between workers, managers, and owners (and the different types of firms they inhabit). But considering the substantial influence of institutional inertia on modern outcomes, it is necessary to examine the origins, and to consider which actors were most important in the early construction of capitalist systems. In this regard, farmers have played a critical role. I examine four cases - early 19th Century United States, early 20th Century United States, post-WWII France, and post-WWII Japan - to assess farmers' influence on the origins of contemporary institutions, and find that they have played an important, though frequently overlooked, role.

*S. Rajaratnam School of International Studies, Nanyang Technological University, Singapore.

I) Introduction

Among wealthy democracies, industrialization during the late nineteenth and early twentieth centuries altered the existing agrarian-based economy and created a new, 'modern' form of capitalism. While most analyses of modern capitalism focus on workers, managers, and owners, these studies frequently overlook the origins of its institutions. Considering the substantial influence of institutional inertia on modern outcomes, it is necessary to examine the origins, and to consider which actors were most important at that time. In this regard, farmers have played a critical role. Although they may lack the power to exert changes to the institutions of contemporary capitalism in today's wealthy economies, their influence is felt most strongly through the legacy of the institutions they were instrumental in creating, and by retaining the power to block changes to it. By shaping the origins of capitalist institutions, the effects of farmers on contemporary capitalism are substantial, though frequently overlooked.

Indeed, an enlightening and novel understanding of modern capitalist outcomes emerges by considering the political power-sharing coalitions that farmers have formed with labor (as in post-WWII France), capital (as in the twentieth century US), and with labor and capital (as in post-WWII Japan). For example, in France following World War II, farmers offered political support for the increased level of government intervention in the economy, and helped to create and support the expansion of what was to become one of the world's largest banks – the Crédit Agricole. In the US, farmers' political influence led to strong regulations protecting local banks and, through the US's decentralized political system, they contributed to the fragmentation of the American financial system. In Japan, farmers supported the postal savings bank, which became even larger than the

Crédit Agricole, and which fed large amounts of money to the government which was then lent to industry (through the Fiscal Investment and Loan Program) and thereby helped to foster a long-term financing orientation among Japanese firms.

In section two, I discuss farmers' preferences over the structure of key economic institutions with implications for the broader political economy. Section three examines four cases to illustrate how farmers have been important to the structure of capitalist economies: nineteenth and twentieth century United States, post-WWII France, and post-WWII Japan. Section four concludes.

II) What Farmers Want

Hall and Soskice (2001) identify key attributes that distinguish capitalist economies from one another. Drawing on the work of Oliver Williamson (1975), they point to asset specificity as a critical attribute that differentiates Coordinated Market Economics (CMEs) from Liberal Market Economies (LMEs). Where assets are specific to the goods and services that are produced, relationships tend to dominate the manner in which actors organize their economic activity, as in CMEs. Where assets are more general -- that is, they can more easily be switched from producing one kind of good or service to another -- arms-length interactions predominate, as in LMEs. For example, with a greater reliance on general assets, and arm's-length interactions, securities markets tend to be more important; LMEs tend to have a higher market capitalization than CMEs (Hall and Soskice, 2001: 19). However, Hall and Soskice acknowledge that several countries do not fit neatly onto their LME-CME continuum. They place these political economies into a third category: Mixed (or Mediterranean) Capitalism. They are distinguished by their recent histories of extensive state intervention and large agrarian sectors, as in Italy, France, Spain, Portugal, Greece, and Turkey (Hall and Soskice, 2001: 21). Thus, taken together, Hall and Soskice identify three key attributes that distinguish capitalist systems from one another: asset specificity, the level of government intervention, and the importance of the agrarian sector. It is obvious that farmers would favor a large agricultural sector, so I will focus on their less obvious, but more consequential, impact on asset specificity and government intervention.

With regard to asset specificity, farmers prefer an economy with a greater emphasis on specific assets; in other words, a relationship-based economy. Long-term economic arrangements are important to them for coping with uncertain crop yields from one season to the next. Farmers, across most countries during the twentieth century, are generally too small to seek financing from capital markets, and must rely on local banks, either in the form of branches of large, networked banks, or in the form of unit banks (i.e., small, local banks without ties to a larger, national banking network). This relationship to the local bank, or agricultural credit bureau, is critical to their survival and success. Keeping capital location-specific with regulations protecting and supporting local banks ensures that lenders will not go elsewhere at the expense of local farms. Moreover, keeping banks location-specific ties the bank's fortunes to those of local farmers; local banks will have to continue lending to local farmers despite a long-term negative revision in expectations regarding the profitability of investment (e.g., an expected long-term decline in the terms of trade). This preserves a long-term relationship between the local bank and farmers, and offers a kind of 'loan insurance' in the sense that farmers can rest assured that banks will continue to loan to them even in bad times

(Calomiris, 2000). For this reason, farmers may favor unit banks since they are tied to the local economy, as compared with the branch of a larger national bank, which can send funds to ‘greener pastures’. To compensate for the risk of bank failure as a result of underperforming, or nonperforming, loans (an acute risk for unit banks), deposit insurance may be created.

As a consequence of farmers favoring local agricultural banking arrangements, the growth of securities markets will be stunted. And where farmers have more political power and there exists a more equitable distribution of wealth, ownership of large corporations is *less* likely to be concentrated and controlled by a small group of families or institutions (e.g., populist resistance to capitalist oligarchs in the late 19th century U.S.; Chandler, 1977: 498; Roe, 1994). Instead, ownership, corresponding to general wealth and banking outcomes, will tend to be more dispersed.

Farmers also tend to favor government intervention in order to divert money away from industrializing sectors (or other areas of the economy where a higher return is likely). And when farmers wield political power, they can direct funds collected through banks or taxes to favored programs (e.g., subsidizing agrarian financing and rural construction projects). As a result of their preference for government intervention via banks, farmers can foster a bias towards patient capital for corporate finance, and stunt the development of equities markets. For example, in Japan, farmers were important to the success of the postal savings system - the main source of funds for the government’s interventionist activities - which enabled subsidized lending to many large corporations. Government ownership of banks in France following WWII likewise led to patient corporate financing, and to the swelling of agricultural assistance. Together, farmers’ preference for relationships to a local bank and for government intervention generates pressure for the existence of a coordinated market economy.

III) Cases

Early economic systems were centered around agriculture. From this starting point, they have evolved into modern economies with farmers forging political coalitions with capital and/or labor, or being denied influence altogether in some circumstances. Here, I focus on those cases where farmers have influenced the structure of the political economy either alone or in combination with other actors. In the early nineteenth century United States, farmers' wielded a near monopoly over politics, which led to an agrarian style of coordinated market economy. In the late nineteenth and early twentieth centuries, farmers were forced to compromise on changes to the existing economic rules and institutions as they fought to rein in the growing influence of capital. In post-WWII France, farmers shared power with labor, which led to the formation of a Mediterranean form of capitalism. And in post-WWII Japan, farmers bargained with both labor and capital to create a capitalist system that resembled France (a labor-farmer outcome) with regard to its interventionist government, Germany (a labor-capital outcome) with regard to its industrial relations, and the United States (a farmer-capital outcome) with regard to managers wielding substantial power over the corporation (as opposed to owners). I discuss these cases in turn.

Farmers Dominate: Early 19th Century United States

The early US financial system is a nearly unique example of what happens when farmers control policymaking in a democracy. In most countries, farmers' political influence has been heavily muted by the arrangement of the political institutions. In few instances have farmers dominated policymaking as much as they did in the early 19th century US.

The federal government's institutional structure led to the devolution of regulatory authority to the state level with regard to banking. This dominance of local interests – farmers - was preserved by Congress in three ways. First, elected officials to the House of Representatives depend on the support of local groups in their home constituency for reelection, comprised largely of farming interests during the early nineteenth century. Consequently, members would support legislation that assisted local farmers, including the preservation and strengthening of local banking facilities, placing the regulatory authority of them at the local level, and defeating efforts that could erode this financial structure (e.g., interstate bank branching).

Second, the Senate helped to preserve farmers' power by granting every state the same number of senators. This would later lead to considerable malapportionment in favor of rural states, which would give agricultural interests sufficient political power to block changes to the banking system, and help to preserve the status quo as constructed in the nineteenth century.

The third way in which Congress helped to keep banking regulations set at the local level was by its influence over Supreme Court nominees who were frequently selected for their support of states' rights. As a result of this emphasis, the Supreme Court did not extend constitutional protection to banking as an activity involving interstate commerce, thereby opening the way to state regulatory prohibitions on bank activities across and within states during the nineteenth and most of the twentieth century (Calomiris, 2000: 68).

While farmers dominated the political and economic landscape of the nation, cleavages did exist between different regions. Regional groupings included southern plantation owners and slaveholders versus smaller northwestern farmers versus a small but growing industrialist population in the northeast. The nature of their economic activity led to preferences for different banking structures. In the South, wealthy slaveholders favored branching since the dominant form of collateral in the antebellum period was slaves rather than land (Kilbourne, 1995); there was little advantage from bonding the banker to a particular locale, as other non-slaveholding farmers would prefer. In the antebellum Northeast, branching restrictions were not an important constraint on the dominant economic class -- merchants and industrialists – since they benefited by the creation of charter rents to the extent that they could use their control of banks to improve their own costs of credit. In the Northwest, the middle-class farmer would carry the day with variations on location-specific banks (unit banks). In the mutual-guaranty systems of Indiana, Ohio, and Iowa (where banks joined a small cooperative network that offered mutual protection, self-regulation, and enforcement), farmers received many of the benefits of branching (particularly lower interest rates and lower risks of bank failure), while retaining the advantages of location-specific bank capital. Other banking systems of the Northwest opted simply for unit free banks (anyone willing to abide by a common set of state regulations could open a unit bank); none authorized free entry in the form of branch banks (Calomiris, 2000).

The pro-unit banking agricultural states of the northwest tended to dominate the congressional committees that controlled banking regulation. They accomplished this via congressional 'horse-trading' over committee appointments (Calomiris, 2000: 68-69). Since the northeast was the region for which competition for seats would have occurred (between the south and the northwest), northwestern representatives won out as representatives from the northeast preferred to trade their seats to members who also opposed slavery. And once slavery was abolished, unit banking gained further political support from southern farmers.

In sum, the early US financial system displayed the key attributes of an agrarian-oriented CME. Relationships dominated the organization of economic activity, with political institutions amplifying the political power of local farmers. As a result, regulatory power over the American financial system was largely determined at the state (local) level, with wide-ranging financial system implications, including the fragmentation of the banking system, and the eventual diffusion of corporate ownership in the twentieth century (Roe, 1994).

Farmers and Capital Share Power: Twentieth Century United States

Twentieth century American capitalism is largely the result of a battle between local interests favoring fragmentation against those seeking to make financial institutions, and markets, centralized. As Calomiris (2000) explains, tension increased in the late nineteenth century with the second industrialization wave. Political pressure to alter the financial system mounted with the growth of railroads and industry, and the attempts to reap advantages from scale and scope economies (Chandler, 1977). Indeed, many of the

US’s modern financial institutions trace their origins, or important formative moments, to events in the late nineteenth and early twentieth century. But the political battles fought at this time illustrate the entrenched power of local interests - particularly farmers - who could prevent substantial changes to the status quo.

Roe (1994) offers an excellent historical account of how politics affected the evolution of the US financial system. He focuses on how populist interests, in combination with the US’s federal political institutions, led to the fragmentation of a burgeoning, centralized banking (and broader financial) system in the early twentieth century. Securities markets later developed as a way to circumvent the inefficient and fragmented banking system in order to provide much needed financing to America’s large industrial enterprises. But, as DeLong and Becht (2005) point out, Roe’s argument has “two holes.” First, Roe has a hard time answering why ‘politics’ was so strong in corporate finance, yet weaker in labor-management relations. Second, Roe’s argument has difficulty explaining why pyramids did not emerge in the United States, as they did in other countries. But both of the ‘holes’ in Roe’s argument are likely due to combining farmers and labor into one general ‘populist’ category. This term is frequently used to refer to those with low incomes, but this is problematic since farmers and labor can have widely divergent preferences.

For example, in the May 1932 edition of the *American Federationist*, published by the American Federation of Labor, William Green, the magazine’s editor, remarks that, “In the April [issue] were published a number of articles written by persons with special competence in the field of banking. … From these articles one conclusion stands out conspicuously: The need of a unified banking system.” He goes on to say:

> There are about 20,000 banks in the United States chartered as state banks or national banks. … In practice this amounts to 49 different banking systems, as each state fixes the amount of capitalization and practices required by all chartered…. Obviously, the first step toward raising general banking practices is to establish the authority of the Federal Government – then unified authority will close the escapes that have enabled banks to evade higher standards. The great preponderance of failures have come from state banks in rural communities. … To meet the problems of the small banks, a system of branch banks is proposed.

Green reiterates these points and emphasizes the preference for small country banks to become branches of large, city banks in the April 1933 issue.[i]

Owners of capital were on the side of labor with respect to wanting more centralized banks. According to an editorial in the *Wall Street Journal* (December 13, 1932), entitled "Too Many Banks," "A reasonable and guarded expansion of branch banking will go far to overcome the conditions which a mushroom spread of little isolated banks has left behind it." It was clear to owners and managers of large American enterprises that financing costs would be lowered with large, universal banks that could meet all their financing needs, as in Germany. As Calomiris (2000: 265) explains, "the statistical comparison of German and American financial systems confirms qualitative historical and theoretical analysis that has linked universal banking to low costs of industrial finance."

In contrast to labor and capital, farmers and unit banks wanted to keep banks fragmented and local. Because of the massive bank failures of the 1930s, the unit bankers' lobby was considerably weakened. As a result, farmers' political influence became critical to the preservation of local banking. Farmers' success at preserving a fragmented banking system depended upon their capacity to lobby politicians; states with a greater abundance of wealthy farmers more effectively blocked new bank branching than those with poorer farmers (Calomiris, 2000). While specific types of farming led to variations in the support for branched versus unit banks, generally speaking, farmers tended to favor local banks over branched city banks.

Three laws of great importance to the structure of the American financial system in the twentieth century illustrate farmers' importance: the McFadden Act of 1927, the Glass-Steagall Banking Act of 1933, and the Securities Exchange Act of 1934. Together, they have had considerable influence on the structure of the American banking system and corporate finance (and equities markets) in the twentieth century.

The McFadden Act sought to give national banks competitive equality with state-chartered banks by letting national banks branch within the state to the extent permitted by state law.[ii] This would be the first legislation to allow national banks to open branches within a state, and thus be a precedent-setting law of potentially great importance. Those who would benefit from this law include the large city banks, owners of large enterprises, and their employees. Farmers and the small unit banks who served their financing needs would be expected to oppose the legislation as it could lead to the draining away of money from the interior to urban, industrial centers.

The Glass-Steagall Banking Act of 1933 sought to separate the activities of commercial banks and securities firms and prohibit commercial banks from owning brokerages. It would also introduce federal deposit insurance.[iii] Those who would benefit most were the farmers who depended on the services of local banks, while wealthy industrialists and those who worked in them would be the losers as a result of inefficiencies in the banking system leading to a lower supply of lending and higher costs (both explicit via the lower supply, and implicit via the moral hazard cost of providing deposit insurance).

Another critical piece of legislation that would have decades-long consequences for the structure of the American financial system was the Securities Exchange Act of 1934. One of its key features was the protection of minority shareholders in the secondary market. While the 1933 Securities Exchange Act, which dealt with the issuing of securities in the primary market, contained an antifraud provision, questions remained about its reach. The 1934 Act broadened the scope, and thereafter it was commonly invoked for insider trading cases; it has also been used against companies for price fixing (artificially inflating or depressing stock prices through stock manipulation), bogus company sales to increase stock price, and even a company's failure to communicate relevant information to investors. The main losers from this legislation were those with access to private information – wealthy owners and investors – and those who worked for them while those who supported it were those who sought to limit the scope and power of large financial institutions and corporations, notably farmers.

For the tests conducted here, the dependent variable is the legislator's 'yea' vote for a bill (coded as 1 or 0 otherwise).[iv] As a basic measure of the importance of farmers in each state, I use the total value of agricultural production as a fraction of state income.[v] Workers' influence is measured by the proportion of a state's total population that works in the manufacturing sector. Capital's influence is measured by the level of manufacturing value added minus total wages as a fraction of the state's total income. I also identify members as Democrat or Republican, a common identifier for voting patterns on financial legislation, and consistent with partisanship measures used in cross-country tests (e.g., Roe, 2003). Table 1 presents the results from probit estimations for House and Senate votes on these three pieces of legislation.

Table 1: Interests and US Financial Legislation

		DV: Yes vote for the McFadden Act, 1927		DV: Yes vote for the Glass-Steagall Banking Act, 1933		DV: Yes vote for the Securities Exchange Act, 1934	
		House	Senate	House	Senate	House	Senate
1	Value of Farm Production	-0.02*** (-4.03)	-0.03*** (-4.05)	0.02*** (4.82)	-0.01* (-1.8)	0.03*** (6.77)	0.02*** (2.72)
	Pseudo-R^2	0.04	0.2	0.04	0.02	0.09	0.07
	N	365	93	428	86	428	94
2	Manufacturing Population	0.04*** (3.28)	0.07** (2.24)	-0.07*** (-5.52)	0.02 (0.92)	-0.12*** (-7.64)	-0.08*** (-2.88)
	Pseudo-R^2	0.025	0.05	0.05	0	0.11	0.07
	N	365	93	427	86	428	94
3	Capital Value Added	0.003 (0.51)	0.05*** (2.82)	-0.01** (-2)	0.009 (0.68)	-0.03*** (-4.63)	-0.01 (-1.04)
	Pseudo-R^2	0	0.09	0.006	0	0.039	0
	N	365	93	428	86	428	94
4	Value of Farm Production	-0.02*** (-3.3)	-0.06*** (-3.69)	0.01* (1.82)	-0.02* (-1.72)	0.01** (1.88)	0.03** (2.19)
	Manufacturing Population	-0.01 (-0.58)	-0.17** (-2.44)	0.003 (0.12)	-0.03 (-0.63)	-0.02 (-0.61)	-0.1 (-0.27)
	Capital Value Added	-0.02** (-2.02)	0.02 (1.16)	0.005 (0.56)	-0.004 (-0.22)	-0.009 (-0.89)	0.03 (1.46)
	Democrat	-0.51*** (-2.97)	-0.62* (-1.7)	2.08*** (9.88)	-0.1 (-0.34)	1.6*** (9.44)	0.97*** (2.92)
	Pseudo-R^2	0.07	0.28	0.3	0.03	0.29	0.16
	N	363	93	418	86	427	94
	Log-Likelihood	-200.84	-36.67	-200.6	-57	-194.43	-51.13

z-statistics are shown in parentheses.
*** statistically significant at the 1% level; ** statistically significant at the 5% level; * statistically significant at the 10% level.

Models 1 through 3 illustrate the specific relationship between the three variables (farmers, labor, and capital) and the votes cast to illustrate that divisions occurred in the expected way: representatives from farming states voted differently from their counterparts in worker and capital dominant states in each case. Model 4 illustrates that farmers' influence remained robust to the inclusion of party identification; that is, members of congress would frequently break ranks with their party to vote the way their farming constituency would prefer (even exercising more influence on how members voted than party identification in the case of the McFadden Act!). And farmers exerted more influence in this regard than workers or capital. Indeed, the evidence is consistent with the view that farmers have exhibited considerable influence over the structure of America's twentieth century financial system.

The key point is that labor (joined by capital) and farmers were at odds over the structure of the financial system, and should not be combined into a single 'populist' category. Clearly specifying these actors' preferences, and accounting for their differing political power neatly fills Roe's 'two holes' and remains consistent with his broader argument. The first 'hole' about politics being important to corporate finance, but not to labor-management relations is easily answered from this perspective. Farmers were politically powerful, and they favored fragmented, locally-oriented financial regulations. In other words, they wanted to prevent the emergence of large, city banks with branches in the interior that could drain money away and deny them a valuable form of insurance. Farmers care little about labor-management relations. And because labor has been politically weak in the United States, they were unable to affect labor-management relations, and have been unable to offer sufficient political support to large, city banks.

The second 'hole', about the failure of pyramids to emerge, is also consistent with distinguishing between politically powerful farmers, and politically weak labor. In other countries where labor is strong (e.g., Austria and France), pyramids do exist. Left-wing parties (and their labor union counterparts) view them as useful for implementing labor-oriented policies across a wide range of enterprises. But farmers would not benefit from such concentrated financial and economic might. Indeed, such arrangements would be to their detriment as such oligopolistic power would almost inevitably lead to funds being drained out of the interior and put to more 'productive' uses in urban areas (i.e., invested in projects with a higher return, particularly in a period of increasing industrialization), and raising their own costs of financing. At the same time, farmers were likewise concerned that the concentration of industry would lead to higher transportation and other business services costs for farmers, as large firms would take the best and cheapest resources, and charge customers (farmers) higher prices as a result of monopoly.

For example, in the early 1890s, railroads and industrial firms, usually owned by families or small groups of investors, suffered from price wars that cartels could not remedy, forcing them to integrate into groups. This wave of mergers and reorganizations was fueled by the economic collapse of 1893. Banks implemented these changes which contributed to their control over many railroads and industrials, via voting trusts or board representations. [vi] By 1912, 18 financial institutions sat on the boards of 134 corporations. Of these 18 institutions, five banks were dominant: J.P. Morgan & Co., First National Bank, National City Bank, Guaranty Trust Co., and Bankers' Trust sat on the boards of 64 financial institutions and 68 nonfinancial corporations. Together, these five banks controlled industrial assets (on behalf of others) representing 56 percent of the country's GNP (Simon, 1998).

Bank concentration and the perception that banker-directors encouraged collusion generated widespread criticism. Farmers, small business, and local bankers were the main groups that opposed bankers and giant corporations. As a result of mounting political pressure, Rep. Arsène Pujo spearheaded a Congressional investigation on the concentration of power in Wall Street in 1912. The Pujo hearings succeeded in tarnishing bankers' reputation and led to the Clayton Act in 1914 which clarified and supplemented the Sherman Antitrust Act of 1890 by prohibiting stock purchase mergers that resulted in reduced competition. The Clayton Act helped to counteract the concentration of ownership and economic power of big business and financiers; bankers in particular were targeted as the main culprits in fostering a financial/industrial oligopoly. But many felt it did not go far enough.

The stock market crash of 1929 and subsequent Depression renewed calls for political investigations of Wall Street and the banking industry. The Gray-Pecora Hearings, from 1932-34, brought to light many misdeeds of commercial bankers and led to the enactment of legislation that would further reduce the power of big bankers. Reformers were especially worried about possible conflicts of interest that a banker-director may have, and on the fate of minority shareholders that were cow-towed by bankers and their voting trusts. As a result, the Securities Act and the Glass-Steagall Banking Act were passed in 1933, and the Securities Exchange Act was signed into law in 1934. Together, they weakened the big bankers and financiers and their control over corporations, and cemented the emerging trend of fragmentation that would come to characterize the structure of the American financial system.

As a result of weakening large financial institutions and improving protections for small investors, local interests – led predominantly by farmers - unwittingly created the conditions that would lead to a flourishing equities market as a way to circumvent the fragmented banking system, and place power over corporations into managers' hands. Thus, while farmers and local interests may not have specifically targeted pyramids in their legislative initiatives, their push for fragmentation (first with the Clayton Act and later with legislation in the 1930s) sent a clear message that this type of ownership structure would be politically unacceptable.

Although the United States is regarded as a non-interventionist state, an important exception should be made in the case of agriculture. Saloutos (1974) observes, "Perhaps in no period of American history were the efforts of the federal government to resolve the almost unresolvable problems of the farm prosecuted with greater vigor and optimism than during the New Deal years. What administrators and politicians thought and did about the depressed state of the farmers more or less set the pace for policy making in the post-World War II decades …." For example, farmers' vast political influence enabled the creation of the Farm Credit Administration in 1933, which extended billions of dollars in loans to farmers and their business cooperatives. At the same time, the FCA improved the farm credit market through the leadership and competition it provided. Credit was made available at the lowest possible rate, enabling thousands of borrowers to obtain credit who would otherwise have lost their property through foreclosures.

According to Saloutos, "The New Deal … constituted the greatest innovative epoch in the history of American agriculture."

Thus, through their substantial influence over the structure of the banking system and of corporate finance, complemented by government intervention to the benefit of the agricultural sector, farmers have been instrumental in the development of modern American capitalism by forcing its centralizing features, in the form of its securities markets, to adapt within decentralizing pressures, with respect to its banking system (and other financial institutions; Roe, 1994) and the diffusion of corporate ownership.

Farmers and Labor Share Power: Post-WWII France

At the end of WWII, centralized state administration of agricultural financing was well established as a result of laws from 1940-43 permitting the state to use the Crédit Agricole's financing capabilities for wartime use. Consequently, French farmers molded this centralized structure to their own ends as a result of the substantial increase in their political power compared to that which existed during the Third Republic; there was no longer a strong Senate to block their legislative initiatives. The ordinances of October 17, 1944 and October 20, 1945 sought to attract prisoners from during the war, or those deported and recently repatriated, to rural employ by offering favorable credit terms. The law of May 24, 1946 likewise targeted young people between the ages of 21 and 35, with subsidized loans. In 1946 there were 661 loans totaling 140 million Francs; by 1959 there were 168,000 loans totaling 914 billion Francs for these young rural workers (Henry and Regulier, 1986: 74). The total value of medium and long-term loans made by the Crédit Agricole grew from 630 million francs in 1950 to 13 billion francs in 1963.[vii] While the extensive subsidies and favorable credit terms were necessary following the war to deal with food shortages, the continuance of these generous benefits beyond the immediate postwar shortages illustrates that other political motives were at play, such as preventing a decline in the rural population (Kuisel, 1981: 187). Indeed, French farmers have maintained considerable political influence during the post-WWII period for several reasons: (1) constituency size; (2) political mobilization; (3) neocorporatist influence; (4) overrepresentation; and (5) voter heterogeneity leading to the exercise of a critical swing vote.

Even after many years of urbanization and economic modernization, farmers were the fourth largest occupational group in France in the early 1990s.[viii] But more important than the number of active farmers (the statistic usually cited) is the size of the broader agricultural community, which Hervieu (1992) calculated to be 17 percent of the electorate, including: active farmers, retired farmers, spouses of farmers, voting age children of farmers, and former farmers now in other occupations.[ix] In addition to these groups, rural residents have strong common interests with farmers since cutting farm subsidies, for example, would 'trigger a perverse multiplier effect' accelerating the exodus of rural merchants and thus impairing the quality of life. Firms making up the agribusiness (e.g., traders, storers, food processors) likewise have a huge stake in the fate of farmers.[x]

A second factor contributing to French farmers' political power is the membership density of the farmers' union – the FNSEA - which is more than twice as high as that of the labor unions (54.5% for the farmers' union versus 23% for the labor unions).[xi] The nature of farming issues bolsters reliance on the FNSEA since, as the owner of his own business, a farmer must deal with a wide range of service needs which require organizational assistance. And because many farmers possess relatively low levels of education and income, and work in isolated settings, the FNSEA acts as a useful guide through the maze of regulations related to farming as well as providing access to financial resources through its close relationship to cooperatives and semipublic organizations, such as the French Chambers of Commerce (Keeler, 1996: 135). Additionally, in recent years the farmers' union has effectively elicited public support by appealing to concerns over the environment and farmers' role as custodians of the rural areas as well as protecting consumers against the potential risks of genetically modified crops from America.

A third factor contributing to French farmers' unusually strong political influence is the state's need for collaboration with an interest group in the agricultural area; no other economic domain features such numerous, small, and inaccessible production units. Consequently, state officials are highly dependent on their interest group clients for information on which to base policy and for staff assistance at the local level to assure the effective implementation of complex programs. Thus, France has developed neocorporatist group-state relations in which the agricultural ministry grants official recognition to the FNSEA and provides it with exclusive access to state decision makers at the national level, devolves power for the administration of certain policies at the subnational level, and offers special subsidies designed to facilitate the FNSEA's performance of its quasi-official roles. In short, the FNSEA does not simply 'lobby' state officials, but instead tends to 'comanage' the affairs of the sector (Keeler, 1987: 6-16, 256-59).

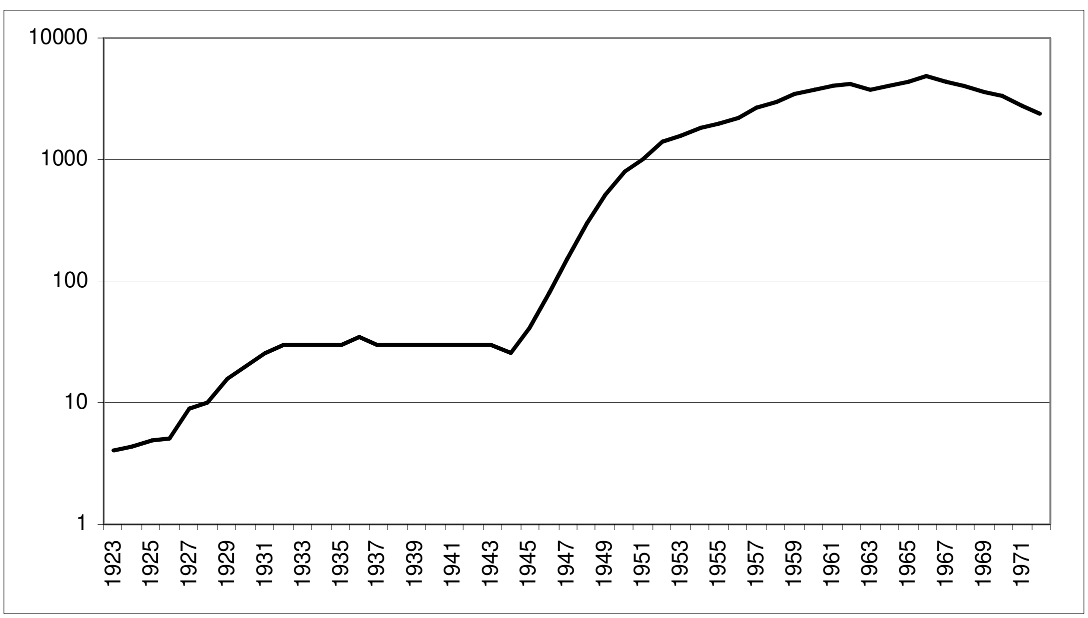
Farmers also have a disproportionate chance to be elected officials and are overrepresented in many elections. France has more local administrative districts (36,487 communes) and thus more sparsely populated rural districts than any other European state. Since members of the French senate are indirectly elected by an electoral college in which 95.5 percent of the votes are cast by members of the communes' municipal councils, it is not surprising that farmers are overrepresented in the national upper house as well.[xii] Farmers are also overrepresented, albeit to a lesser degree, in the departmental general councils (Keeler, 1996).[xiii]

Although the number of farmers elected to these various representative positions has declined over the years, as one would expect, it is important to note that the degree of their overrepresentation has in fact increased. For example, the percentage of farmers in the senate has declined from 24.8 percent in 1959 to the current 14.3 percent, but the ratio of representation (the percentage of senators who are farmers divided by the percentage of farmers in the active population) has increased in that time from 1.2 to 2.0 (Keeler, 1996).

Finally, in comparison to Germany, French farmers are considerably more diverse socioeconomically. The spread between farm sizes and types is much larger in France than in Germany. During much of the post-war period, German farms have tended to be small and medium-sized and heavily capitalized. French farms display a wide range of farm types, ranging from modern farms in the northern plains to backward farms in mountainous regions barely permitting their sharecropper operators to live on a subsistence level (Averyt, 1977: 38). And with the exception of a lower Communist vote and a higher centrist vote, French farmers' voting patterns have generally resembled those of the rest of the electorate (Averyt, 1977: 24). This allows them to use a critical swing vote during elections, which political parties pay handsomely to court.

As a result of these numerous ways of preserving their political influence, farmers have benefited from financial policies and government intervention catering to agriculture. Between 1950 and 1963, Crédit Agricole medium and long-term loans rose from 630 million francs to 13, 000 million francs.[xiv] This expansion has continued as the bank has financed, with considerable government subsidy, the technical and infrastructural modernization of the countryside. Figure 1 illustrates the tremendous increase in government assistance to the Crédit Agricole during the postwar period in comparison to the pre-war era, corresponding to their elevated political influence following the war.

Figure 1: Value of Advances from the State to the Crédit Agricole (1923-1972)
in millions of Francs (logarithmic scale)



Source: adapted from Gueslin (1984: 322).

Government assistance continued to increase until the early 60s when the pro-business Gaullist government took power. Despite the leveling off in government support, Crédit Agricole loans continued to grow. Additionally, the balance of deposits increased tremendously after the war as a result of a rapid expansion of its branches and favorable deposit rates. By 1959, the deposits of the Crédit Agricole represented about 11.2% of total deposits in the French banking system. Comparing this to its deposit base in the prewar era illustrates the enormous change.

Table 2: Composition of Deposits in France (in millions of contemporary francs)

	Total Deposits (1)	Crédit Agricole (2)	(2)/(1)
1913	18581	4	0.0002%
1920	64249	27	0.0004%
1930	156705	999	0.006%
1937	180105	1297	0.007%
1959			11.2%
1975	1246.5 (billion FF)	147.9 (billion FF)	11.9%

Source: Gueslin (1992); for 1975: Bayliss and Butt Philip (1980: 127).

While the Crédit Agricole has expanded its services, its core business has remained the agricultural sector.[xv] Indeed, the Crédit Agricole has considerably increased its services to farmers in comparison with the prewar period, corresponding to farmers' far greater political power (Carré, Dubois, and Malinvaud 1975: 337). This expansion of the government's role in agricultural financing was accompanied by the government's increased role in the ownership and distribution of funds through state-owned commercial banks. Farmers' support for nationalizing the commercial banks after WWII and for government intervention created heavy reliance on state institutions for the administration of the economy. While farmers may not have been directly involved in deciding the distribution of lending to industrial enterprises from these state-owned banks, they were supportive of the state's capacity to administer funds (since they benefited from funds being redirected to agriculture). This created an overreliance on the state to manage the economy, with wide-ranging implications (Hall, 1986; Culpepper et al, 2006). For example, the prominent role the state played in coordinating arrangements between employers and unions left them vulnerable to the 'move to the market' of the 1980s, which saw the decline of state intervention across Europe. As a result, firms and workers found themselves without the support for strategic coordination on which they once counted, and institutional change has been more dramatic in France than in the liberal or coordinated market economies of northern Europe (Hall and Thelen, 2005).

Thus, farmers have been important to supporting the establishment of France's post-WWII banking-oriented economy with extensive government intervention, which has had wide-ranging implications that extend beyond the agricultural sector.

Labor-Capital-Farmer Power-Sharing Coalition: Post-WWII Japan

While French farmers' influence was generally overshadowed by labor, Japanese farmers have been more important to the state's interventionist tendencies since labor has been weaker here. Japan's farmers have been politically powerful as a result of: (1) land reform; (2) changes to the legislative-executive balance; (3) malapportionment; (4) the electoral system; and (5) consensus political institutions.

Immediately after the war, land reform measures were introduced by SCAP officials, who feared that the revival of the tenancy system could lead to a relapse of authoritarianism or a communist insurgency among landless farmers. SCAP also viewed land reforms as critical to the democratization effort and so a dramatic restructuring of landholdings in rural Japan ensued.[xvi] At the end of the war, tenants cultivated 45 percent of arable land; by 1950, tenants cultivated only 10 percent. Likewise, the number of farm families that owned 90 percent or more of their land increased from 1.7 million to 3.8 million.[xvii] Land redistribution vaulted farmers to a very politically powerful position, comprising nearly half of the total electorate in 1950 (Mulgan, 2001: 304). With such an overwhelming proportion of the electorate, agricultural interests had sufficient power to elect Diet members outright and to propose and pass legislation. And although the rural population has declined since then, agriculture has retained considerable negative political power (i.e., the ability to ensure electoral failure if votes are redirected away from a candidate and to veto unfavorable policies), which has been sustained by increasing malapportionment of electoral districts begun with the 1947 electoral law (Wada, 1996: 11). Table 3 illustrates the increasing malapportionment in both houses during the postwar period.

Table 3: Differences between voting values in the least and most densely populated electorates (1947-90)

	Ratio in House of Councillors prefectural constituencies		Ratio in House of Representatives constituencies	
Year	Least densely populated constituency	Most densely populated constituency	Lease densely populated constituency	Most densely populated constituency
1947	1.25	: 1	1.51	: 1
1950	1.55	: 1	2.17	: 1
1960	2.39	: 1	3.21	: 1
1967	5.07	: 1		
1970			4.83	: 1
1980	5.37	: 1	3.95	: 1
1990	6.25	: 1	3.38	: 1
1998	4.98	: 1	2.40	: 1

Source: Mulgan, 2001: 330.

Multi-member district single-nontransferable vote rules have magnified the political power of farmers. This type of electoral system creates incentives for politicians to develop a loyal group of supporters by wooing them with pork in exchange for votes. Politicians offer favors via government regulations and through the bureaucracy (e.g., Fukui and Fukai, 1996). "The party in control of the government has, of course, a distinct advantage in creating personal vote coalitions for its candidates because it monopolizes policy and budgetary favors. As long as the majority party can pass its legislation through the parliament and can direct bureaucrats effectively, it can enact (or have bureaucrats implement) particularistic policies that facilitate the creation and maintenance of personal vote coalitions" (Cowhey and McCubbins, 1995: 44). Some of these particularistic policies may include subsidized lending and other forms of financial assistance. To direct these financing favors to specific recipients, intermediaries are relied upon. In Japan, farmers have benefited considerably as key members of these personal vote coalitions, and the close links between farmers and LDP politicians has contributed to LDP majority control in the post-war period.

Additionally, the legislative-executive balance changed after the war, placing the locus of political power firmly in the lower house of the Diet to the benefit of farmers. And Japan's consensus political system has made it difficult to change the financial institutions because of the numerous veto-points that preserve the status quo.

Added to these institutional mechanisms was the reform of the cooperatives, which enabled farmers to organize and become highly influential in electing representatives to government. During the war, cooperatives were part of the Imperial Agricultural Association (IAA). As an instrument of government control over agriculture during the war, the IAA was tainted by authoritarianism in the eyes of SCAP officials, and in 1947 Occupation authorities ordered its dissolution. Under the Agricultural Cooperative Association Law (or Nokyo Law) passed in December 1947, local cooperatives were reconstituted as a private, voluntary organization — the Nokyo. As a result of their new legal status, the number of local Nokyo proliferated rapidly – from 4,256 in April 1948 to 27,819 by December 1948.[xviii]

The Nokyo Law allowed agricultural cooperatives to take deposits and to lend funds via the Norinchukin Bank - Nokyo's banking arm. Nokyo were also permitted to supply credit to local public organizations, banks, or other banking institutions.[xix] Consequently, Nokyo garnered tremendous political and economic power at the local level. Additionally, the cooperative banks collected government payments destined for producers. These government transfers, in turn, fueled the expansion of cooperative activities in other areas. According to a 1951 SCAP publication, "In most villages, general-purpose cooperatives now provide the primary credit, marketing, purchasing, processing, and other essential services used by farmers."[xx] The framework for offering agricultural subsidies through cooperatives was established under the Land Improvement Law of 1949 and through the Law for the Reconstruction of Agricultural Finances in 1951. During the 1949-53 period, subsidies more than tripled, bolstering the reliance on agricultural cooperatives as politically useful intermediaries.[xxi]

The political instability of the 1945-1950 period offered the agricultural cooperatives a golden opportunity to establish themselves as a potent political force at the 'rice' roots level. With 90 percent of all farm households represented by at least one cooperative member, Nokyo became the most important organization in rural Japan.[xxii]

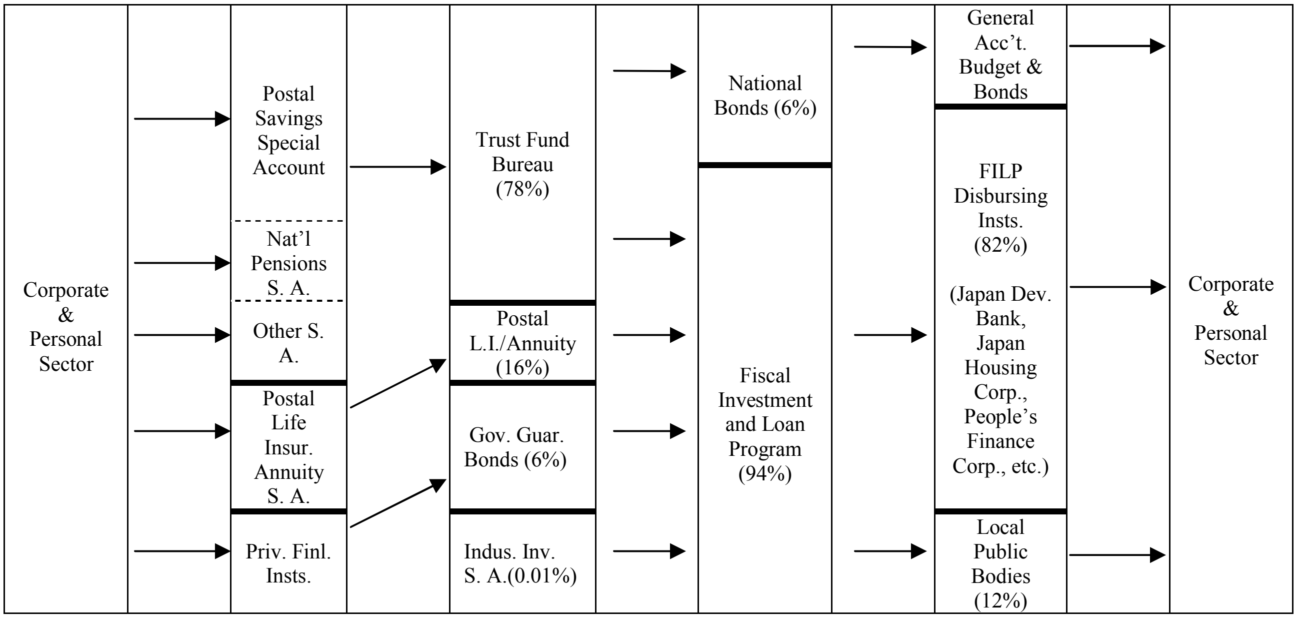
There were frequent instances in which the position taken by Nokyo determined the success or failure of a given candidate. Furthermore, Nokyo executives made use of their vote-gathering capacities to enter and win national and local elections.[xxiii] In short, cooperatives became an essential component of every rural politician's reelection constituency, and considerably enhanced credit availability to small farmers (Mulgan, 2000).

In order to receive the political support of the local cooperative, however, politicians had to distinguish themselves as advocates of agricultural interests. The surest way to secure the endorsement of Nokyo officials was through government largesse. Funds for paddy reconstruction, irrigation, and other pork-barrel projects carried out through the local cooperative were critical for rural political success. Between 1949 and 1953, agricultural expenditures increased from 5.9 to 16.6 percent of the national budget; direct subsidies and grants accounted for 50 percent of the Ministry of Agriculture budget. And in 1953, agricultural interest successfully lobbied to prevent the diversion of funds toward interest rate subsidies for industry with the Trust Fund Bureau Law, which set a floor of 6.05 percent on the lending rate of Trust Fund Bureau loans to government financial institutions, except in specially authorized circumstances (Sheingate, 2001; Calder, 1990).[xxiv]

The massive growth of rural subsidies was partly due to party competition for farmers' votes since they comprised nearly half the electorate. Conservative politicians outdistanced their Socialist rivals at channeling government resources to rural Japan, which ballooned as a result of the Korean War (1950-1953). A 1952 opinion poll reported that 77 percent of farmers favored the two conservative parties over their socialist rivals. By the time the various postwar parties combined in 1955 into the Liberal Democratic Party on the Right and Japan Socialist Party on the Left, the cooperative associations were a central part of the conservatives' electoral strategy and a main reason for subsequent LDP political success. As the LDP-Nokyo alliance solidified over the next decade, subsidies for local public works projects rose steadily (Sheingate, 2001).

But farmers have been important to solidifying corporations' reliance on patient financing as well. The early concentration of government-directed investment in heavy industry gave the post-war banking-dominated system a substantial boost. The Reconstruction Bank played a crucial role in this regard, and in 1948 it had become by far the largest supplier of capital for the coal, iron and steel, fertilizer, electric, shipping, and textile industries (Yamamura 1967: 27-8). However, it was disbanded in January 1952 because of its inflationary consequences - it raised funds largely through bond issues monetized by the Bank of Japan. Consequently, government officials moved to the use of postal savings to fund government-targeted industries via the Fiscal Investment and Loan Program (FILP), which was finally consolidated in 1953. The Japan Development Bank, as an entity within the FILP, replaced the functions of the Reconstruction Bank in 1951, and devoted 84% of its total loans to the coal, iron/steel, electricity, and shipbuilding industries in the years 1951-55 (Broadbridge 1966: 32-3). Thus, the early concentration of investment in these sectors, coupled with the powerful position of the city banks, produced an industrial and financial pattern which led to close linkages between firms and banks (Hoshi and Kashyap, 2001).

Figure 2: The Fiscal Investment and Loan Program
(Based on Fiscal 1989 Data)



Source: Calder, 1990: 34.

Government intervention was bolstered by the postal savings bank, which offered very attractive *deposit* account treatment and which catered to those living in the countryside because of its numerous branches. Postal savings have succeeded as a result of government support in four areas: licensing of new financial products, tax treatment, administrative cost support, and the expansion of post-office branches. The attractiveness of the financial products it offers has been important to its rapid expansion. One highly attractive product is the ten-year fixed-interest deposit without penalty for early withdrawal. These deposits have few analogues either in the Japanese financial system or elsewhere. They carry comparatively high interest rates for Japanese financial instruments and can serve as collateral for housing and other loans (it is possible to temporarily withdraw the bulk of the principal without impairing the high, long-term guaranteed-interest of the account). Second, until 1988, postal savings accounts were tax exempt, although there was a ceiling on permissible deposits. However, there has been little effective control over the proliferation of multiple accounts. Third, the postal savings system in Japan also benefits by having its operating costs subsidized from the interest income flowing from Trust Fund Bureau lending. Finally, the network of post offices across Japan has proliferated rapidly during the post-war era, with over 23,000 branches by the mid-1980s, orders of magnitude greater than those of even the largest banks, which were constrained by Ministry of Finance restrictions from expanding as rapidly. The Dai Ichi Kangyō Bank, Japan's largest, had, for example, only 379 branches in late 1988. Internationally, Citibank had 2,900 branches while France's huge Crédit Agricole had 10,620.

Commercial banks have received far fewer benefits than the postal savings system; even the concessions they received came with a discriminatory time lag during which the postal savings system was able to gain market share at the expense of the banks. For example, although postal savings were accorded tax-free status in the early postwar period, banks did not receive this for even a portion of their deposits until 1952. In addition, the private banks have never been allowed to offer financial products as attractive as postal savings bank deposits or to freely develop the sort of huge national branch network that postal savings enjoys (Calder, 1990).

The contemporary importance of the postal savings bank can be seen by the size of its total deposit base, as shown in table 4. In addition to its importance within Japan, it has also remained the largest financial institution in the world for over two decades.

Table 4: The Rapid Postwar Growth of Postal Savings Deposits in Japan
(in ¥ trillion)

Year	Postal Savings Deposits	Bank Deposits[1]
1955	0.5	3.7
1965	2.7	20.7
1975	24.6	92.9
1985	103	230.6
2005	234	835.7

Note: 1. Figures for bank deposits include totals for city, local, trust, and long-term credit banks.
Source: Calder, 1990: 43.

Thus, farmers have contributed significantly to sustaining the institutions and policies of Japan's coordinated market economy with favorable deposit rates, and other perquisites, via the postal savings banks. This led to a high accumulation of funds for the government, which were to used to finance industry, and saved these firms from turning to securities markets and diluting their ownership. This helped Japanese firms build and sustain their intercorporate ownership structures (and which contributed to managerial power). Thus, through their important role in the creation of the FILP, and the policies of the postal savings bank, farmers have contributed to Japanese firms' reliance on patient capital. And insofar as Roe (2003) finds that long-term financing arose as a complement to employment stability, but not necessarily as a result of labor's bargaining power, farmers may fill the causal void through their creation of various intermediation channels that fostered patient lending arrangements. Because financial institutions tend to complement one another, once these long-term financing mechanisms were in place, they reinforced this long-term orientation in the broader financial system. Indeed, farmers have played an important complementary role to labor. Farmers have created mechanisms external to the firm that preserve a reliance on bank lending; Japan's financial system, and the forces that preserve it, cannot be properly understood without considering farmers' important role At the same time, farmers sharing power with capital is consistent with the managerial control in the US. While it was initially the result of Occupation policies to break up the zaibatsu, that they reformed and stabilized as keiretsu with intercorporate ownership rather than as pyramids is consistent with what one might expect from the perspective of American financial history.

IV) Conclusions

Identifying the key players is critical. While most discussions about contemporary capitalism focus on workers, managers, and owners, (and the different firms in which they are found), these studies often do not consider the origins of these institutions. Considering the substantial influence of institutional inertia on modern outcomes, it is necessary to examine the origins, and to consider which actors were most important in the early construction of capitalist systems. In this regard, farmers have played a critical role. Although they may now lack the power to exert changes to the institutions of contemporary capitalism, their influence is felt most strongly through the legacy of the institutions they were instrumental in creating, and by retaining the power to block changes to it.

In France following World War II, farmers offered political support for the increased level of government intervention in the financial system, and helped to create and support the expansion of what was to become one of the world's largest banks – the Crédit Agricole. In the US, farmers' political influence led to strong regulations protecting local banks and, through the US's decentralized political system, they contributed to the fragmentation of the American financial system. In Japan, farmers supported the postal savings bank, which became even larger than France's behemoth Crédit Agricole, and which fed large amounts of money to the government which was then lent to industry (through the FILP) and thereby helped to foster a long-term financing orientation among Japanese firms.

By considering the importance of farmers to capitalist outcomes among today's wealthy economies, we can understand better the influence they have on developing countries. Indeed, many of today's developing countries are just establishing their capitalist institutions. China and India, for example, are at a point in their development that resembles the process many wealthy countries went through at the beginning of the twentieth century. And in these countries, the rural population is very large, and potentially very powerful. In China, for example, leaders are particularly worried about inciting a farmers' rebellion (as has occurred before in Chinese history) and so they must be sensitive to the effects that their policies have on their rural inhabitants. Thus, while understanding the role of farmers among today's wealthy economies is important to explaining the varieties of capitalism observed among this select group, it is of potentially greater significance to understanding the potential development paths of industrializing nations.

References

American Federationist. (May, 1932 & April, 1933).

Averyt, William F. (1977). *Agropolitics in the European Community: Interest Groups and the Common Agricultural Policy*. New York: Praeger.

Bayliss, Brian, and Alan Butt Philip. (1980). *Capital Markets and Industrial Investment in Germany and France: lessons for the UK*. Hampshire, England: Saxon House.

Becht, Marco and J. Bradford DeLong. (2005). "Why Has There Been So Little Block Holding in America?" In Randall K Morck (ed.), *A History of Corporate Governance Around the World*. Chicago: The University of Chicago Press.

Broadbridge, Seymour. (1966). *Industrial Dualism in Japan; a problem of economic growth and structural change*. Chicago: Aldine Publishing.

Calder, Kent. (1988). *Crisis and Compensation: Public Policy and Political Stability in Japan, 1949-1986*. Princeton: Princeton University Press.

Calder, Kent. (1990). "Linking Welfare and the Developmental State: Postal Savings in Japan." *Journal of Japanese Studies*. 16(1): 31-59.

Calomiris, Charles. (2000). *U.S. Bank Deregulation in Historical Perspective*. New York: Cambridge University Press.

Carré, J. J., P. Dubois, and E. Malinvaud. (1975). *French Economic Growth*. Stanford, California: Stanford University Press.

Chandler, Alfred D. (1977). *The Visible Hand: The Managerial Revolution in American Business*. Cambridge, MA: The Belknap Press of Harvard University Press.

Cowhey, Peter F. and Mathew McCubbins. (1995). *Structure and Policy in Japan and the United States*. New York: Cambridge University Press.

Culpepper, Pepper D, Peter Hall and Bruno Palier (eds.). (2006). *Changing France: the politics that markets make*. New York: Palgrave MacMillan.

Dore, Ronald. (1984). *Land Reform in Japan*. Continuum International Publishing Group.

Fukui, Haruhiro and Shigeko N. Fukai. (1996). **"**Pork Barrel Politics, Networks, and Local Economic Development in Contemporary Japan**."** *Asian Survey*, Vol. 36, No. 3: 268-286.

Fukutake, Tadashi. (1967). *Japanese Rural Society*. New York: Oxford University Press.

Gueslin, André. (1984). *Histoires des Crédits Agricoles*. Paris: Economica.

Gueslin, André. (1992). "Banks and state in France from the 1880s to the 1930s: the impossible advance of the banks", in *Finance and Financiers in European History, 1880-1960*. Cambridge: Cambridge University Press.

Hall, Peter. (1986). *Governing the Economy: The Politics of State Intervention in Britain and France*. New York: Oxford University Press.

Hall, Peter, and David Soskice, eds. (2001). *Varieties of Capitalism: the institutional foundations of comparative advantage*. New York: Oxford University Press.

Hall, Peter, and Kathleen Thelen. (2005). "Institutional Change in Varieties of Capitalism." Working paper.

Henry, José-Pierre, and Marcel Régulier. (1986). *Le Crédit Agricole*. Paris: Presses Universitaires de France.

Hervieu, Bertrand. (1992). "Dix Remarques sur le vote des agriculteurs," in Bertrand Hervieu, ed., Les Agriculteurs français aux urnes. Paris: L'Hartmann.

Hervieu, Bertrand. (1993). *Les Champs du Futur*. Paris: François Bourin.

Hoshi, Takeo, and Anil Kashyap. (2001). *Corporate Financing and Governance in Japan*. Cambridge, Massachusetts: The MIT Press.

INSEE, Annuaire des statistiques (1986).

Junnosuke, Masumi. (1985). *Postwar Politics in Japan, 1945-1955*. University of California Press.

Keeler, John. (1987). *The Politics of Neocorporatism in France: farmers, the state, and agricultural policy-making in the Fifth Republic*. New York: Oxford University Press.

Keeler, John. (1996). "Agricultural Power in the European Community: Explaining the Fate of CAP and GATT Negotiations". *Comparative Politics*, 28 (2): 127-149.

Kilbourne, Richard H. (1995). *Debt, Investment, Slaves: Credit Relations in East Feliciana Parish, Louisiana, 1825—1885.* Tuscaloosa: University of Alabama Press.

Kuisel, Richard F. (1981). *Capitalism and the State in Modern France: Renovation and Economic Management in the Twentieth Century*. New York: Cambridge University Press.

Masumi, Junnosuke. (1985). *Postwar politics in Japan, 1945-55*. Berkeley, Calif.: Institute of East Asian Studies, University of California, Berkeley, Center for Japanese Studies.

Morris-Suzuki, Tessa, and Takuro Seiyama. (1989). *Japanese Capitalism since 1945: critical perspectives*. Armonk, N.Y.: M.E. Sharpe.

Mulgan, Aurelia. (2000). *The Politics of Agriculture in Japan*. New York: Routledge.

Mulgan, Aurelia. (2001). *'Japan Inc.' in the agricultural sector: reform or regression?* Canberra, ACT: Australia-Japan Research Centre.

Roe, Mark. (1994). *Strong Managers, Weak Owners*. New York: Princeton University Press.

Roe, Mark J. (2003). *Political Determinants of Corporate Governance*. New York: Oxford University Press.

Saloutos, Theodore. (1974). New Deal Agricultural Policy: An Evaluation. *The Journal of American History*. Vol. 61, No. 2: 394-416.

SCAP, Natural Resources Section, *Agricultural Programs in Japan*, *1945-51*, 1952: 37

Sheingate, Adam. (2001). *The Rise of the Agricultural Welfare State: Institutions and Interest Group Power in the United States, France, and Japan*. Princton, NJ: Princeton University Press.

Simon, Miguel Cantillo. (1998). The Rise and Fall of Bank Control in the United States: 1890-1939. *The American Economic Review*. Vol. 88, No. 5: 1077-1093.

Tarditi, Secondo, Kemmeth Thomason, Pierpaolo Pierani, and Elisabetta Croci-Angelini, eds. (1989). *Agricultural Trade Liberalization and the European Community*. Oxford: Oxford University Press.

Wada, Junichiro. (1996). *The Japanese Election System: Three Analytical Perspectives*. New York: Routledge.

Wall Street Journal. (December 13, 1932). "Too Many Banks."

Williamson, Oliver. (1975). *Markets and Hierarchies: Analysis and Antitrust Implications*. Free Press.

Yamamura, Kozo. (1967). *Economic policy in postwar Japan: growth versus economic democracy*. Berkeley: University of California Press.

Zenkoku Nogyo Kyodo Kumiai Chuokai, *Shinpan: Nogyo Kyodo Kumiaiho*, pp. 66-113.

---

[i] Specifically, Green writes, "A great deal of trouble may be remedied by certain changes in our banking system. (a) Our banking system should be unified. At present we have 50 different banking systems, all with different regulations. (b) Most of the banks which have failed in the last three years have been small country banks. This difficulty could be avoided if small country banks were branches of strong city banks and could draw on larger resources in time of need. In order to establish branch banking in the United States, Federal laws and some state laws would have to be changed to permit banks to set up branches and to assure control."

[ii] The McFadden Act remained in effect until the Riegel-Neal Interstate Banking and Branching Efficiency Act of 1994, after farms had transformed into modern agribusiness that would be more sympathetic to large financial institutions.

[iii] The Gramm-Leach-Bliley Act of 1999 repealed the Glass-Steagall Act, opening up competition among banks, securities companies, and insurance companies by allowing commercial and investment banks to consolidate. As with the repeal of the McFadden Act, farmers had transformed into modern agribusiness by this point.

[iv] Votes are obtained from the Congressional Record.

[v] Data for the value of farm production are from the Yearbook of Agriculture 1931: Gross income of crops and livestock combined, 1929, p. 977. This value is then divided by total

state income; data for state income is from State Personal Income: 1929-1987, US Department of Commerce.

[vi] The Sherman Act of 1890 did not prohibit banks from organizing such groups since it was aimed primarily at large railroads and industrial enterprises. Small business and farmers combined against railroads because these charged lower rates to large customers or important city routes. The act passed with overwhelming Congressional support; the Senate and House votes were 52-1 and 242-0, respectively. It was specifically designed to prevent the artificial raising of prices by restriction of trade or supply.

[vii] INSEE, Annuaire des statistiques (1986).

[viii] Bertrand Hervieu, Les Champs du Futur. Paris: François Bourin, 1993; p. 43.

[ix] Bertrand Hervieu, “Dix Remarques sur le vote des agriculteurs,” in Bertrand Hervieu, ed., Les Agriculteurs français aux urnes (Paris: L’Hartmann, 1992), p. 401.

[x] Secondo Tarditi, Kemmeth Thomason, Pierpaolo Pierani, and Elisabetta Croci-Angelini, eds., Agricultural Trade Liberalization and the European Community (Oxford: Oxford University Press, 1989), pp. 4-5.

[xi] John Keeler, 1996, “Agricultural Power in the European Community: Explaining the Fate of CAP and GATT Negotiations” Comparative Politics, Vol. 28, no. 2, pp. 127-149.

[xii] As of 1989, 14.3 percent of senators were farmers.

[xiii] 13.2 percent as of 1985. Only in the national assembly are farmers even slightly underrepresented (3 percent)

[xiv] INSEE, Annuaire des statistiques,1986.

[xv] In the 1970s, the Crédit Agricole became one of the largest banks in the world.

[xvi] Dore, *Land Reform in Japan*, 131-32. Morris-Suzuki et. al. *Japanese Capitalism since 1945*, 1989: 88-89.

[xvii] Fukutake*, Japanese Rural Society*, 181.

[xviii] SCAP, Natural Resources Section, *Agricultural Programs in Japan*, *1945-51*, 1952: 37; Junnosuke, *Postwar Politics in Japan*, 258-59.

[xix] Mulgan, 2000: 50. For a detailed description of each of the businesses of the agricultural cooperatives, see Zenkoku Nogyo Kyodo Kumiai Chuokai, *Shinpan: Nogyo Kyodo Kumiaiho*, pp. 66-113.

[xx] SCAP, *Agricultural Programs in Japan*, *1945-51*, 114-16.

[xxi] Calder, 1988: 262.

[xxii] Dore, *Land Reform in Japan*, 282-87.

[xxiii] Masumi, *Postwar Politics in Japan*, 259. Dore, *Land Reform in Japan*, 415.

[xxiv] This legal floor remained in effect until early 1987.