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## **Legitimacy Gaps and Everyday Institutional Change in Interwar British Economy**

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Who drives domestic institutional change in the face of international economic crisis? For rationalists the answer is powerful self-interested actors who struggle for material gains during an exogenously generated crisis. For economic constructivists it is ideational entrepreneurs who use ideas as weapons to establish paths for institutional change during crisis-driven uncertainty. Both approaches are elite-centric and conceive legitimacy as established by command or proclamation. This article establishes why domestic institutional change in response to international economic constraints must be legitimated by non-elites and how their everyday actions alter policy paths established in crisis. This is illustrated by re-examining a case frequently associated with punctuated equilibrium theories of crisis and institutional change: interwar Britain. In contrast to conventional explanations, I argue that the “legitimacy gap” between elite and broader public understandings about how the economy *should* work informed institutional experimentation during the 1920s and 1930s and fertilized the “Keynesian Revolution” of the 1940s.

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How do states know how to create the right domestic institutions to anticipate and respond to international economic crises? Rationalist approaches to international economic crises stress how domestic actors respond to external constraints in pursuit of material incentives (Gourevitch, 1986; Haggard and Maxfield, 1996). Struggle takes place during uncertainty, from which the domestic winner then forms a coalition to establish a new institutional equilibrium that endures until the next crisis. The same dynamics then apply internationally if stable domestic coalitions prevail in a number of powerful states.

This rationalist approach to crises has been recently challenged by economic constructivists who emphasize that actors do not automatically know their incentives in periods of crisis and uncertainty because their interests are socially constructed (Hay in this symposium; Blyth, 2002; Widmaier, 2004). Here uncertainty provides an opportunity for entrepreneurial actors to use ideas as weapons in a battle over how institutions should change to respond to a crisis. The

entrepreneur may then form an international community of like-minded actors who can foster both domestic institutional change and international cooperation through the diffusion of norms and economic ideas (Finnemore and Sikkink, 1998; McNamara, 1998).

A key problem with both rational and constructivist approaches is that they rely too heavily on moments of crisis and uncertainty. As a consequence there is a weak understanding of how the broader population may influence institutional change in a period of everyday “normality”. Accordingly, both rationalist and constructivist approaches have a thin conception of social legitimacy, ignoring the capacity of non-elite actors to constrain the choices and policy implementation of the materially or ideationally powerful.

Within the extant literature, legitimacy is typically treated by rationalist scholars as irrelevant to explanation or as a resource states command to bend people to their will. Similarly, constructivist scholars tend to regard the proclamation of an idea by a winning entrepreneur as auto-legitimizing. Both approaches provide punctuated equilibrium models of institutional change that neglect questions regarding the modification of institutions pre- or post-crisis. In contrast, this article demonstrates how a focus on the legitimacy contests between governments and the broader population in everyday economic life permits a different understanding of institutional change. I contrast how elites claim legitimacy for economic problems against the broader population’s intersubjective understandings of how the economy *should* work. I refer to the difference between the two as a “legitimacy gap”. Exploring this gap permits a view of institutional change as more incrementally cobbled together in everyday experience than in crisis and uncertainty.

Within international political economy (IPE) the dominant view of interwar Britain is that it fits well with a punctuated equilibrium model of institutional change. The period is noted for Britain's failure to innovate to recapture its hegemony and its inability to cope with international economic shocks with policy innovation (Stein, 1984; Lobell, 1999). For example, in assessing Britain's response to the Great Depression, Peter Gourevitch, asks "Why was there less policy experimentation in the United Kingdom"? (1986: 136). From this view Britain's institutions allowed it to remain in the neo-classical economic orthodoxy asserted in the early 1920s until Keynesian policy innovations were adopted in the late-1930s (Gourevitch, 1986: 138-140). Such accounts of interwar Britain provide an elite-centric and ex-post rationalization of the sources of change in both the British domestic and international political economies.

In providing grounds for the emergence of a legitimacy gap, I draw upon economic and social history to interpret how the working and lower-middle classes attributed significance to institutional changes they valued, such as housing, wages, and unemployment. Importantly, a deeper contextual interpretation reminds us that we cannot assume actors' domestic identities and interests to be fixed over time and particularly so when faced with international economic constraints. The analysis provided here suggests that contests over the legitimacy of institutional change in everyday life generated policy "bricolage" as governments sought to respond to broader public dissatisfaction with, contra Gourevitch, experimental institutional change (Campbell, 2004: 65). Such contestation between the government and the broader population fertilized the Keynesian revolution of the 1940s.

The article proceeds as follows: Part I surveys rationalist and constructivist approaches to institutional change in periods of crisis and uncertainty. Part II discusses the importance of

legitimacy to everyday types of influence on institutional change. Part III applies these arguments to the case of interwar Britain.

## **Part I: Rationalist and Constructivist Approaches to Institutional Change**

### *Rationalist-Materialist Approaches*

Within early IPE literature the climacterics of hegemonic rise and decline dominated the sub-field, particularly analyses of change that demonstrated how exogenously generated crises create uncertainty that allows a new hegemon to rise or impel states to cooperate on the grounds of material self-interest (Gilpin, 1987; Keohane, 1984). From this initial literature more domestically sensitive work stressed how a state's capacity to respond to an exogenously generated economic crisis was determined by its domestic political structures (Ikenberry, 1988), with centralized systems demonstrating efficiency while pluralist systems, arguably, showed efficacy (Krasner, 1984; Stein, 1984; Hobson 1997). Such work sparked interest in how dominant economic groups formed coalitions to respond to exogenous shocks, of which Peter Gourevitch's "second image reversed" perspective led the field (Gourevitch, 1986; Frieden, 1988; Lobell, 1999). As Gourevitch explains, the general dynamics were that:

In the prosperous years preceding the crisis, a policy approach and support coalition developed. Then came crisis challenging both policy and coalition. Crisis opened the system of relationships, making politics and policy more fluid. Finally a resolution was reached, closing the system for a time, until the next crisis (Gourevitch, 1986: 21-2).

This logic provides a clear materialist punctuated equilibrium model of change (see Figure 1 below). The general implication was that in “normality” institutions remained as fixed forms and “sticky” until shaken by a “major” exogenous economic shock that transformed coalitions and established a new path for institutional change (see also Haggard and Maxfield, 1996: 61). Gourevitch’s aim, after all, was to provide a “historical sociology of the trajectories of national responses to external changes” (Gourevitch, 1986: 221).

What keeps actors sticking to the trajectory? For Gourevitch the propagation of economic ideology is critical since “Economic reality is rarely so clear that objective circumstances impose themselves on behavior with no mediation from ideas” (1986: 233). However, the rationalist view is complicated here because only ideas that “fit” with the newly established institutional changes have influence, because the institution establishes a “system of ideas and standards which is comprehensive” (Hall, 1993: 277). The role of ideas is to provide a “framework of collective purpose” to offer “focal points” that “shape public understandings of options” and legitimate already established policy choices (Gourevitch, 1986: 234; Garrett and Weingast, 1993). Accordingly, the rationalist view is that legitimacy can be created by command and the public has little capacity to alter a determined path for institutional change. As Kathleen Thelen has pointed out, identifying such path dependence from the vantage point of the present, and with a focus only on elites, invites rationalizations of how institutions evolve that excludes social dynamics that are off the map (2004: 25).

### *Constructivist-Ideational Approaches*

Constructivists argue that institutional change arises not simply from the pursuit of material self-interest but from intersubjective understandings about an institution's purpose (Ruggie, 1998). The constructivist view rejects the rationalist tendency to view ideas as post-facto justifications of material power dynamics, and argues that the exchange of ideas can fundamentally alter interests before actors engage in struggle (Sikkink, 1991: 6). At a broader level, what societies want from the international political economy depends not on what they can get from it, but on who they think they are (Abdelal, 2001).

Early constructivist work demonstrated how ideas and norms about appropriate conduct were often introduced from the outside-in, particularly by ideational entrepreneurs who learnt about international norms that formed a "logic of appropriateness" (Finnemore and Sikkink, 1998). The diffusion of institutional forms among international policymaking elites was most likely to occur during periods when uncertainty generated "highly fluid conceptions of interest" (McNamara, 1998: 7).

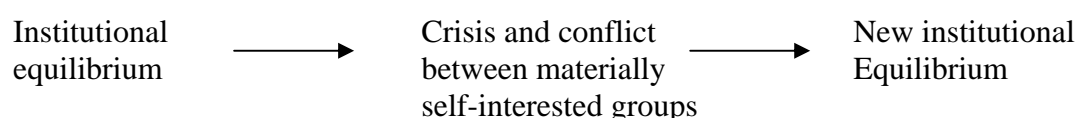
More recently, "economic constructivists" have been concerned with understanding the inside-out formation of intersubjective understandings about how the economy should work within a society. As such, they stress how actors construct exogenously generated crises and struggle over ideas during periods of uncertainty (Blyth, 2002; Culpepper, 2003; Widmaier, 2004). Once more uncertainty is essential. Particularly important is radical uncertainty, where "agents have no idea what institutions to construct to reduce uncertainty" and are compelled to resort to "repertoires of action that resonate with their core identities" to rethink and resolve a crisis (Blyth, 2002: 36, 267). In doing so, economic constructivists avoid relying on a structural "logic of appropriateness", or the rationalist assumption that ideas are selected on self-interest and then attributed ex-post from an institutional outcome to the actors who designed the institution.



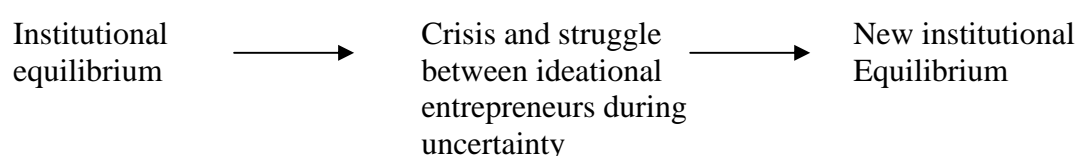
In moving away from structural-exogenous arguments, economic constructivists stress the role of the ideational entrepreneur during periods of radical uncertainty, and how such actors are able to use ideas as weapons to try and influence institutional change to resolve a crisis. While economic constructivists do not argue that radical uncertainty is the only moment when institutional change may occur, it has been the dominant focus of their work. As a consequence, it could be argued that economic constructivists produce an ideational punctuated equilibrium model (see Figure 1). Typically, the general relationship is as follows: there is consensus around a given set of political and economic ideas that are institutionally maintained until a seemingly *unprecedented* crisis generates radical uncertainty over what should happen next. At this point, ideational entrepreneurs grab onto ideas from the menu of available options at the time and which fit with their normative commitments. A political struggle over ideationally mediated interests then ensues until a new consensus is formed. New institutional forms are then created according to the winner of the ideational struggle. These institutions, which embody the idea of the winning ideational entrepreneur, then take on a path dependent character that remains until the construction of the next crisis. Such a model of institutional change allows some economic constructivists to attribute “causal effects to ideas only where their impact is most clearly demonstrable” (Parsons, 2003: 12).

**Figure 1: Rationalist and Constructivist Punctuated Equilibria**

(a) Rational-Materialist



(b) Constructivist-Ideational



The focus on ideational entrepreneurs has led recent economic constructivism to posit a view of “legitimacy by proclamation” (Seabrooke, 2006: Ch. 2). The focus on ideational entrepreneurs has led to a view, often implicit, that the carrier of an idea for institutional change can auto-legitimate it among the broader population. Blyth, for example, argues that in the construction of Swedish embedded liberalism, Bertil Ohlin’s posting of memos to interest groups, resulting in the “legitimizing, and thereby empowering, one set of ideas over another” (2002: 108) Likewise, Craig Parsons puts forward the view that ideational entrepreneurs are the carriers of “master frames” that establish a path dependent logic for institutional change (Parsons, 2003: 19, 32). As pointed out by Colin Hay, economic constructivism requires a prominent figure to provide an “ideational focus for the reconstitution of the perceived self-interests of the population at large” (2004: 210). At its most extreme, this approach adopts a “Great Men of History” approach to domestic institutional change from international economic crisis.

The economic constructivist view of institutional change is problematic if the constructivist research program seeks to understand the interplay of ideas, identities and norms among broader society rather than a policy or ideational elite. Such a view gives the unwanted and, I believe, unintended, impression that while ideational entrepreneurs have agency in dealing with crises the rest of us are “institutional dopes blindly following the institutionalized scripts and cues around them” (Campbell, 1998: 383).

## **Part II: Legitimacy and Everyday Institutional Change**

Is it possible to move away from punctured equilibrium models of how domestic institutions respond to international economic shocks to see change as evolutionary and incremental? Such a view would place less emphasis on coalition groups or ideational entrepreneurs and permit a focus on the legitimation of institutional change among the broader population and their ideas about how the economy should work.

Table 1 separates out the types of institutional change that inform claims to legitimacy by dominant or elite actors, and potential contests to legitimacy from non-elite or subordinate actors. Understanding these forms of action is important in illustrating how legitimacy gaps are created.

**Table 1: Types of Influence on Institutional Change in Legitimacy Claims and Contests**

<b>A. Claims to Legitimacy</b>	<b>B. Contests to Legitimacy</b>
<p><b>Coercion</b> Threats or actions by dominant actors force subordinate actors to relent.</p> <p><i>Legitimacy claimed by command.</i></p>	<p><b>Defiance</b> Subordinate actors openly resist dominant actors despite costs imposed upon them.</p> <p><i>Legitimacy contested by overt protest.</i></p>
<p><b>Mimetic Conformity</b> Actors conform to dominant structures and behaviors in their self-interest.</p> <p><i>Legitimacy claimed by command.</i></p>	<p><b>Mimetic Challenge</b> Actors conform to dominant structures and behaviors to alter shared understandings.</p> <p><i>Legitimacy contested by covert protest.</i></p>
<p><b>Radical Uncertainty</b> Actors can use ideas as weapons to create change.</p> <p><i>Legitimacy claimed by proclamation.</i></p>	<p><b>Axiorational Behavior</b> Actors' belief-driven actions create change in everyday life.</p> <p><i>Legitimacy contested incrementally.</i></p>

*Column A.* As observed above, rationalist scholars discussing domestic institutional change in response to exogenous economic shocks concentrate on how self-interested coalitions struggle

to direct institutional change. Once the crisis has passed, the winning coalition claims legitimacy through its command over the new institutional equilibrium. This may take the form of coercion, whereby elites use threat or force with the support of their mandate. The conditions permitting the establishment of a new institutional equilibrium in one state may encourage mimetic conformity among others. Subsequent command over a new institutional arrangement that responds to an external constraint may then provide the basis for a claim to legitimacy (Gourevtich, 1986: 235-6). These two types of change, coercion and mimetic conformity, can be found in realist and neoliberal thought in international relations, including most of its variants. The third type of action and legitimacy claim in column A is radical uncertainty, as discussed above.

*Column B.* The most obvious place to start in outlining types of action for the contestation of legitimacy claims is open defiance through protest. Such action can be seen in everything from the “Battle of Seattle” over the WTO to petitions and rock concerts calling for the rescheduling of African sovereign debt. The second type, mimetic challenge, is less obvious. This is where subordinate actors conform to a power structure to challenge the dominant’s claim to legitimacy by exposing hypocritical behavior (Hobson and Seabrooke, 2006). The third type of change, axiorational behavior, is of most interest in the case of interwar Britain. Here actors’ belief-driven actions lead to incremental changes that contest the legitimacy of the dominant structures (Scott, 1985; Kerkvliet, 2005). These actions need not be overtly “political”. Rather, contests to elite legitimacy claims are expressed by people “voting with their feet” in deciding to participate or withdraw from institutions in economic life. Their behavior is axiorational (shorthand for “axiological rationality”) in that it follows conventions about economic life and, at a broader level, social norms (Boudon, 2001). In the absence of perfect information, actors do not reassess their total interpretive framework but, instead, carry on with everyday life through small

incremental adjustments in conventions and ideas about how the economy should work (Seabrooke, 2006; Culpepper, 2003). Such behavior has an evolutionary and cumulative impact upon institutional change, often providing the background to what would otherwise appear to be “revolutionary” change (Campbell and Pedersen, 1996; Hopf, 2002b).

Axiorational behavior is also watched by politicians and ideational entrepreneurs as they attempt to read public sentiment in order to know how to “frame” proposed institutional changes so that legitimacy claims have a greater chance of being accepted (Campbell, 1998: 394-8; Hopf, 2002b). Importantly, most of this activity takes place during periods of pre- and post-crisis “normality”. This is important for a sociological understanding of legitimacy because while extraordinary actions may be justified in a moment of crisis, any resulting institutional change is likely to be altered in the daily grind of ordinary, everyday life (Weber, 1978: 302, 927-9). Importantly, axiorational behavior also suggests a separation of “institutions” from “society” and invites an understanding of how macro-micro-macro changes in ideas about economic life inform individuals’ behavior over time. Economic constructivism sorely needs to analyze this type of influence on institutional change.

Max Weber’s economic sociology is particularly useful here in understanding axiorational behavior (Swedberg, 1998; Seabrooke, 2006). For example, Weber’s concept of “life-chances” refers to how individuals attribute meaning to what is worth struggling for, not according to their economic interests or class position, but according to their instrumental *and* value-oriented beliefs about how the world works. Furthermore, Weber’s little acknowledged concept of “liquid” conventions in economic and social life posits that interests are saturated by economic social norms that are both constraining and enabling (Weber, 1988: 579-80; Weber, 1978: 13, 32; Seabrooke, 2006: Ch. 2). This concept is similar to the concept of “bricolage” in sociology;

that agents recombine existing ideas, identities, and practices and fuse them to new ones to legitimate their behavior and to challenge others' claims to legitimacy (Weber, 1978: 38-40; Campbell, 2004: 87). Such action is incremental, with moments of crisis subordinate to claims and contests to legitimacy made in everyday life.

### **Part III: Legitimacy Gaps in Everyday Interwar Britain**

#### *Conventional Explanations*

The conventional explanation from rationalists and constructivists on interwar Britain may be summed up as follows: after the economic crisis of World War I, the British government clung to increasingly outmoded neoclassical economic policies in the hope of recapturing its fading hegemonic status. This vain attempt at restoring international prestige led to domestic economic doldrums that the Conservative party was too focused on the international economy to attend to, the Liberal party too weak to act upon (despite having John Maynard Keynes onside), and the Labour party politically and intellectually incapable of addressing despite increased electoral support. Britain's obsession with returning to, and then keeping on, the Gold Standard prevented it from engaging in domestic policy experimentation (Eichengreen, 1992). Britain was, ironically, subsequently thrown off the standard when the trade union controlled Labour party, like all left-wing parties, was unable to signal a credible commitment to international markets that it could keep government expenditure tight (Simmons, 1994). Worse still, general budgetary problems, including paying off U.S. debts accumulated during the war, led to increased pressure for trade protectionism and the emergence of an Imperial Preference System that provided a clear change from Britain's earlier advocacy of free trade. By implication, this change signaled

hegemonic decline (Stein, 1984; Lobell, 1999). Economic woes persisted because interest-coalition politics in Britain was strangely distorted by the power of the City of London and by the weakness of agriculture. There was no formation of an agrarian-industrial coalition for mutual self-interest. So while other states saw a realignment of self-interested material coalitions and the emergence of ideational entrepreneurs (notably Sweden and the U.S.), Britain lay stagnant for not only the 1920s but throughout the 1930s (Gourevitch, 1986: 135-140; Blyth, 2002). It then took the wholesale adoption of Keynesian ideas about the governance of economic life during World War II, and their embodiment in Bretton Woods institutions, for Britain to eschew neo-classical orthodoxy and free itself from crisis (Hall, 1989; Widmaier, 2004).

The above explanation views the 1920s and 1930s as a period of domestic stagnation book-ended by two international economic shocks from great wars. Interwar Britain is therefore a wonderful candidate to demonstrate the relevance of a punctuated equilibrium model of change. This conventional view, however, does not address the normative environment within Britain during the 1920s and 1930s that made future Keynesian institutional changes “thinkable” within an everyday context (Hopf, 2002a: 13-15), nor does it address the legitimacy gap between elites and the broader public that spurred experimentation and domestic institutional innovation. Detailing these changes permits a view of how the Keynesian revolution of the 1940s was built upon an evolution of conventions and norms among the broader population.

### *The Normative Environment: The Interwar Moral Economy*

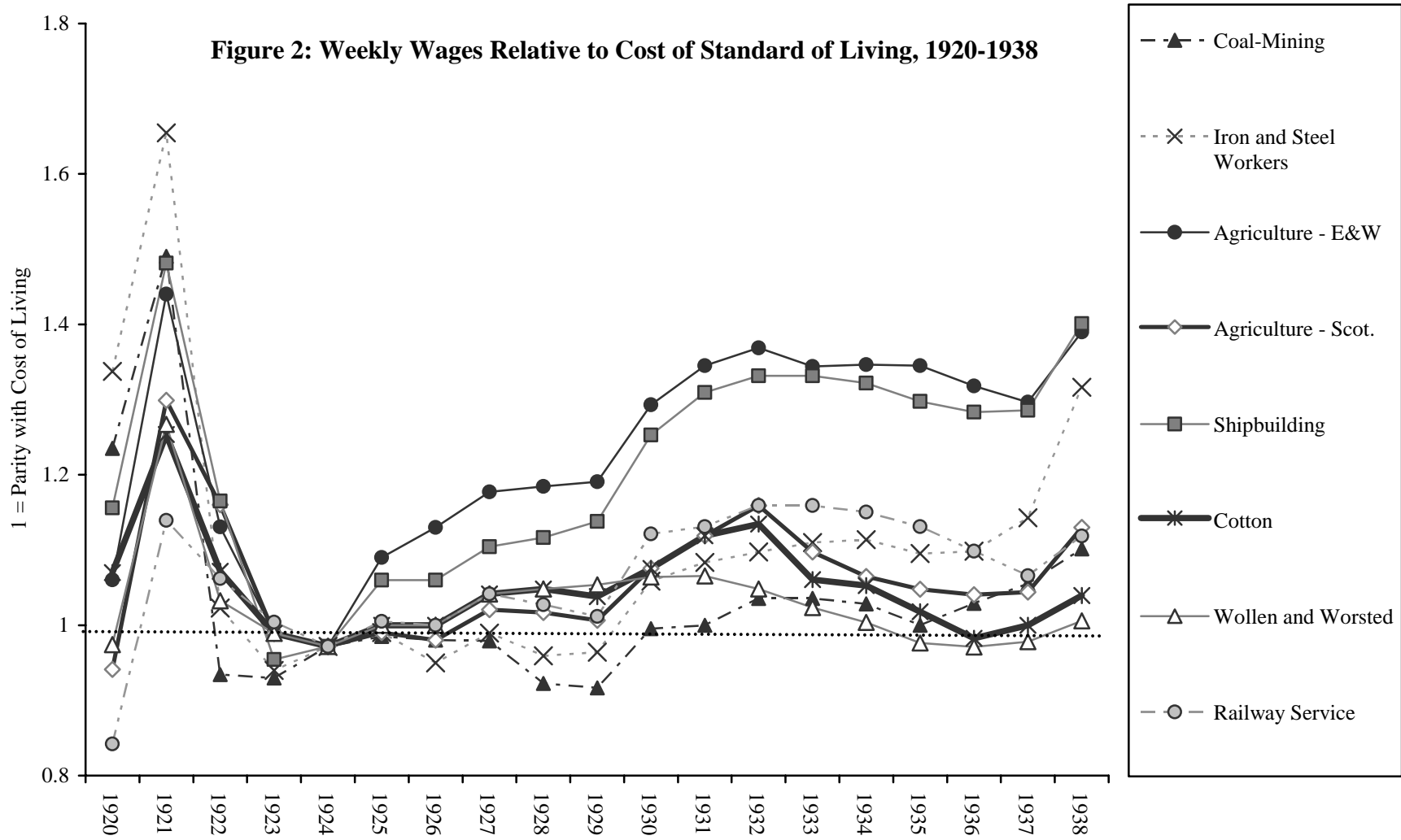
Discussions of the governance of economic life in interwar Britain were framed within a moral discourse full of organic analogies and ideas about the capacity of the state or the market to civilize society. Prior to World War I the growth of a social liberal movement aimed for “social

unity and growth towards organic wholeness” by removing “waste” from the economic system (Daunton, 1996: 208). Polemicists such as John A. Hobson argued that measures of economic value should be “subjectivised” to become based on moral judgment about the needs of the community rather than the selfish preferences of the individual (1914: 15). Within this context, both the Liberal party and the Labour party took aim at rentiers within the City of London as an economic taproot of imperialism because of their failure to invest domestically and their preference for relying on “unearned income” from abroad. Proto-Keynesian blamed rentiers for domestic deflation and for “underconsumption”, and suggested that if the state intervened through taxation then aggregate demand could be raised and the working classes’ standard of living improved (Seabrooke, 2004). These latter objects of wealth, prestige, and pride had been denied to the working classes and lower-middle classes and their continued remoteness provided a key source of frustration. The legitimization of governance over economic life was therefore dependent on the satisfaction of a moral economy in which the “minimal culturally defined subsistence level” had been significantly raised since the pre-war period (Scott, 1976: 10).

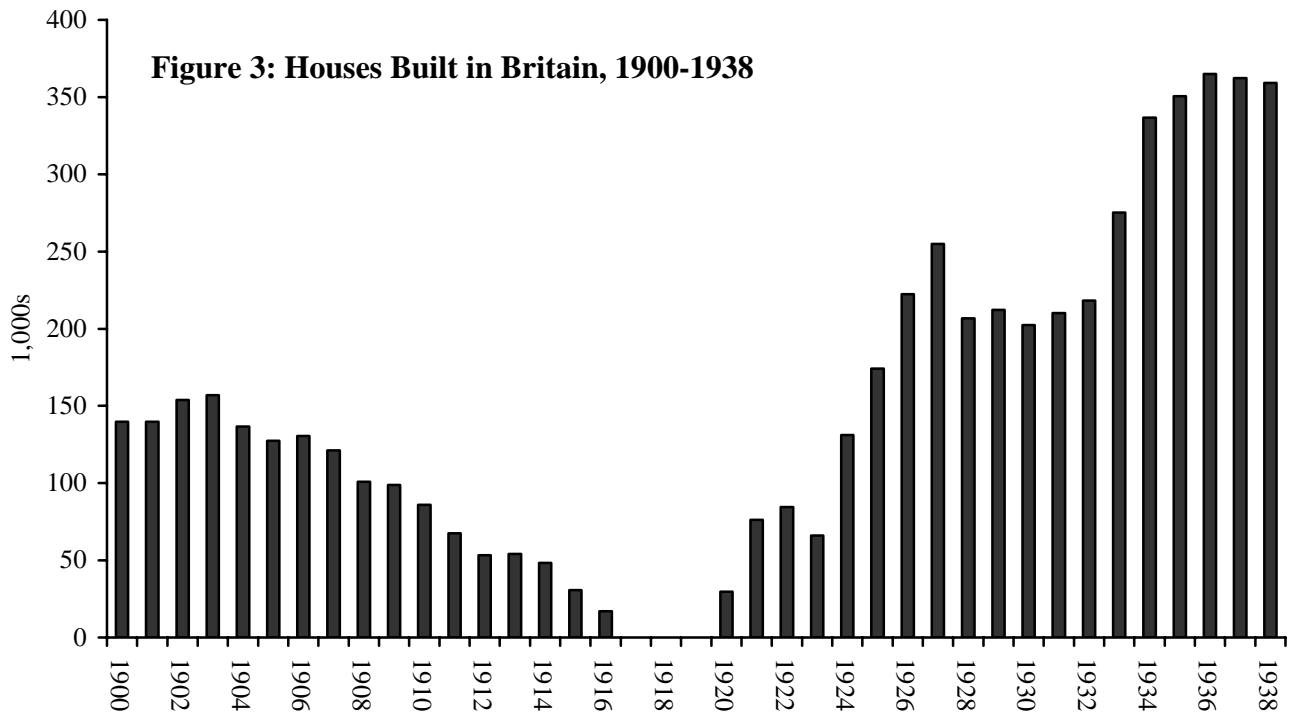
Following World War I, and the sacrifices it entailed, access to wages, housing, and employment became a common goals among working and lower-middle classes. Figures 2-4 provide an indication of how the broader population fared. On wages many “traditional” export-oriented working class occupations did badly compared to changes in the cost of living (Figure 2; the 1921 spike is due to a dramatic but short-lived decrease in the cost of living). Housing provided an ongoing source of frustration as governments failed to deliver and private enterprise picked up the slack (Figure 3). Unemployment remained an especially acute problem (Figure 4). On base economic terms, the interwar years were in all a disappointment.



Raised expectations among the working and lower-middle classes reflected a bricolage-like evolution of attitudes towards the social aspects of economic life. New economic and social conventions emerged as class groups became more fluid, with identity rather than simply income becoming the key glue for association. Mass marketing also aided this process, as even “if the poor remained unable to attain many of the benefits of the new consumerism, this did not prevent them from aspiring towards them – and resenting their inability to obtain them” (Benson, 1989: 156). Rather than anti-capitalist, “class struggle” among the working classes was commonly interpreted as “a struggle against the fates... [where] each family fought it out as best it could” (Benson, 1989: 166). Given such attitudes, it is unsurprising that the working classes and lower-middle classes were not willing to find favor with legitimacy claims about the need to restrict the scope of their “life chances” due to international economic constraints.



Source: Mitchell, 1962: 345, 351.



Source: Mitchell, 1962: 239.



Source: Feinstein, 1972: T128.

*Great Expectations, 1919-1924: Inter-Allied Debts vs. Leisure and Housing*

In 1909 the Chancellor of the Exchequer, David Lloyd George, constructed his famous ‘People’s Budget’ that introduced a range of social reform programs as a “war budget”. The budget, according to Lloyd George, would provide a weapon to tackle the crisis of poverty. This budget gained popular support from the working classes but was big on talk and small on action (Seabrooke, 2006: Ch. 3). In 1919 Lloyd George, now Prime Minister, told his cabinet that:

Great Britain would hold out against the alarming spread of Bolshevism only if the people were given a sense of confidence, and only if they were made to believe things were being done for them. We had promised them reforms, time and time again, but little has been done. We must give them now the conviction that this time we mean it, and we must give them the conviction quickly.<sup>1</sup>

In the uncertainty of the immediate post-war period Lloyd George proclaimed the legitimacy of domestic institutional changes that would meet the raised expectations of the general population about how the economy should work. These changes were the extension of sickness and unemployment benefits to 62% of the population (Benson, 1989: 51), “out-of-work” donations for the unemployed because “threat of popular unrest, demanded no less” (Crowther, 1982: 137), the implementation of a “Homes *Fit* for Heroes” program to address the hunger for property among the working classes, and a proposal for increased public works expenditure through *local* authorities to tackle unemployment (Burgess, 1980: 207).

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<sup>1</sup> PRO, CAB 23/9 War Cabinet 539, 13 March 1919.

Fitting with the expectation of improved quality of life, the new social attitude was that “workers wanted more leisure rather than more income” (Broadberry, 1990: 274, 276). Activities such as the cinema and motorbike and greyhound racing all exploded in popularity and leisure and housing became new criteria for legitimation of economic life. Workers were willing to organize to achieve them. A new solidarity among skilled and unskilled workers led to a surge in trade union membership to a peak of eight million members (Savage and Miles, 1994: 52, 55). Picking up on this, the Labour party argued that the “working classes” included “all who worked by hand or brain”.<sup>2</sup>

While trade unionism is frequently associated with the rise of central government intervention, in the early 1920s both the Liberal and Labour parties shared a “communitarian and decentralist view of local government” (Daunton, 1996: 173). All political parties, trade unions, and employers groups rejected the idea of the government coordinating centralized wage bargaining (Liu 1998: 60-1). The state, however, still had a monopoly on violence and Lloyd George asserted legitimacy by command when sending in six infantry battalions and six cavalry regiments to halt the 1921 “Triple Alliance” strike by coal miners, railway workers, and industrial workers (Liu, 1998: 45, 71).

The action taken against the Triple Alliance reflected a shift from enabling the domestic population to enjoy a better standard of living to a focus on international economic constraints. Following Lloyd George’s 1922 removal as leader of the war-time coalition party and the installation of Andrew Bonar Law as Conservative Prime Minister, the established post-war institutional path was diverted. The new Chancellor of the Exchequer, Stanley Baldwin, argued that “money taken for government purposes is money taken away from trade, and borrowing will thus tend to depress

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<sup>2</sup> *The Times* 11.18.1920.

trade and increase unemployment” (Peden, 1984: 169). The Conservative party argued that international economic constraints required tight domestic expenditure. After all, they pointed out, Britain owed some \$4.7 billion in debts to the U.S. and could only repay this by maintaining its position as the world’s largest trading nation (17% of world trade was British during the interwar period, see Simmons, 1994: 227). By 1924-5 40% of government expenditure was used to service interest on national debt. The subordination of the domestic economy to meet international obligations was publicly associated with the “assumptions of international bankers and rentiers” put into practice (Burgess, 1980: 196-7). Such action aggravated working and lower-middle class ideas of how the economy should work, particularly as politicians had rhetorically attacked the “parasitical rentiers who sucked resources from enterprise and prevented government from providing welfare for more ‘deserving’ members of society” (Daunton, 2002, 60). While the government had made inroads in taxing rentiers (income tax, including “super taxes” on “unearned income”, had increased as a percentage of government revenue from 29% in 1914 to 35.9% in 1920; see Daunton, 2002: 46, 57), the momentum was perceived to be swinging back to the privileged.

Tightened domestic budgets led to the diminishment of institutional reforms established in the immediate aftermath of the war. For example, working class housing was not supported and the Conservative government provided subsidies not to local authorities but to private enterprise, who then built houses for the lower-middle classes. This replicated the “years of frustration” among the working classes that preceded World War I when wages increased significantly but access to housing remained elusive as rentiers chose foreign portfolio investment and treated property as the “last remnant of feudalism” (Bernstein, 1986: 143; also note the decline in house building from 1900-14 in Figure 3). Winston Churchill, as a Liberal social reformer, commented in 1908 that

“Under the old system people had dear food, under the present system they had dear houses”.<sup>3</sup>

Similarly, in 1924, during the Labour party’s 11 months of government, the Labour Minister for Health, John Wheatley, asked: “Are we to remain without houses merely because people who have money to invest refuse to invest that money directly in working class houses?”<sup>4</sup> The Wheatley Housing Act that followed did boost the construction of housing for the working classes, but failed to meet the promises of “Homes *Fit For Heroes*”. Domestic sacrifice in response to international economic constraints became once more associated with parasitic rentiers.

### *Great Frustrations, 1925-1931: Gold Standard vs. the Great Strike*

Following the Labour party’s short 1924 term in office, Churchill, as the Conservative Chancellor of Exchequer, announced his intention to place Britain back on the Gold Standard by 1926. Keynes referred to this plan as the “Norman Conquest of \$4.86” after the Governor of the Bank of England, Montagu Norman (Dillard, 1946: 129). Norman was explicit that “the international consideration” should take precedence over the domestic “state of trade” (Burgess, 1980: 198), while other Conservatives argued that although further social reform was morally just, the financial burden it required could only be supported by “a State which had grown up under a capitalist system”.<sup>5</sup> Keynes publicly countered this argument by stating that the construction of a crisis around the value between sterling and gold, like the gold itself, “wears thinner and thinner.”<sup>6</sup>

For the working and lower middle classes the “Norman Conquest” led to a decline in wages. The deliberate overvaluing of the pound depressed exporters and introduced deflation (Broadberry,

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<sup>3</sup> *The Times*, 05.22.1908.

<sup>4</sup> House of Commons Hansard, 06.23.1924.

<sup>5</sup> *The Times* 05.09.1925.

<sup>6</sup> *The Times* 05.26.1925.

1990: 279). Workers in the most vulnerable export industries were worst affected as wages declined sharply relative to the cost of living (see Figure 2).<sup>7</sup> Prime Minister Stanley Baldwin asserted the legitimacy of the Norman Conquest to coalminers by invoking technical command, that “All the workers in this country have got to face a reduction of wages... to help put industry on its feet” (Dillard 1946: 132).

The response from workers was the Great Strike of 1926. Coal miners wages were subsequently lowered and their hours increased. The Conservative government ignored the Labour party’s calls for state intervention to settle industrial disputes<sup>8</sup> and instead made strikes illegal through the Trade Disputes Act of 1927 (Lowe, 1982: 254). Trade unions argued that the Conservative party would “generate a spirit of revolt, foment industrial hostility, and create social mistrust”.<sup>9</sup> But such words rang hollow as trade union membership had nearly halved because white collar workers who had joined unions in the early part of the decade had left and become what George Orwell described as “Tories, yes-men, and bumsuckers” (1939: 274).

The transmission of U.S. based economic shocks to Britain in 1928 and 1929 sharply increased unemployment (see Figure 4). Churchill was unable to assert legitimacy by command over institutional changes to improve the economy. His main initiative of derating industries, effectively providing a corporate tax cut, did not address unemployment and he rejected the idea of using government spending to increase aggregate demand.<sup>10</sup> The public rejected the Conservative’s “Safety First” electoral platform and turned to the Labour party.

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<sup>7</sup> Measured by export as a percentage of product, the most export dependent workers that correspond to Figure 2 are cotton (44% export dependent), woolen and worsted (33%), shipbuilding, (23%), iron and steel workers (18%) (Simmons, 1994: 231).

<sup>8</sup> *The Times* 04.22.1926.

<sup>9</sup> *The Times* 04.08.1927.

<sup>10</sup> House of Commons Hansard, 05/15/1929.



The great contraction in the world economy led to a loss of income from internationally-engaged activities and exposed the inability of Britain's domestic economy to support the pound (Eichengreen, 1992: 280-1). Between 1928 and 1931, Britain's current account surplus of £104 million plummeted into a deficit of £114 million and the government became dependent on short-term capital flows to assist in paying long-term debts (Simmons, 1994: 226, 230). To address this problem, Labour party experimented by increasing the public works budget to boost employment, but only within budget constraints. It also increased income taxation, cut government expenditure where possible, and considered the use of tariffs.

The Labour party was unwilling to implement Keynesian-like demand management policies, and even Keynes argued in 1930 that government "pump priming" was inappropriate (Booth, 1983: 105). Philip Snowden, the Labour Chancellor of the Exchequer, suggested rolling back the extension of unemployment benefits and trade unions warned the Labour party that "the working classes will resent as strongly as they can any attempt to give effect to the suggestion".<sup>11</sup> It was too late, however, and MacDonald and Snowden formed a new "National Government" dominated by Conservatives in August 1931. The pound was taken off the Gold Standard a month later. In doing so, the British government asserted, with support from Keynes, its right to use tariffs and a "managed" currency as a form of domestic protection (see also Simmons, 1994: 236-7).<sup>12</sup>

### *Great Revelations, 1932-1938: Depression vs. Consumption and Housing*

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<sup>11</sup> *The Times* 08.13.1931.

<sup>12</sup> *The Times* 03.06.1931.

The conventional literature on the Great Depression tells us how, unlike Sweden and the U.S., Britain followed neo-classical orthodox economic policy until the crisis became too severe to ignore new Keynesian thinking. What is missing from the British story is the sharp disruption to the institutional equilibrium that identifies change. There are no clear coalitional realignments with which to identify legitimacy by command, and even Keynes' statements prior to 1933 are not sufficient to assert legitimacy by proclamation for how domestic institutions should change to meet the crisis introduced by the international economy.<sup>13</sup> We know that the London Economic Conference of 1933 was a failure, and that, in retrospect, the “beggar thy neighbor” policies of currency depreciation and increased tariffs only made economic contraction worse. However, as opposed to the period between 1920 and 1931, the new focus on the protection of the domestic economy from international economic shocks led to the development of institutional changes that were more likely to receive the consent of the broader population.

By 1932, total unemployment among the manual labor force was 23% and in some areas of Britain above 60% (Savage and Miles, 1994: 51). However, during this period of economic depression, Orwell remarked “that in a decade of unparalleled depression, the consumption of all cheap luxuries has increased” (1937: 171). Charles Kindleberger also notes that British wage and salary earners were far better off “after buying their food, drink, and tobacco” in 1932 than they were between 1924-7 (1973: 181). As an income group, the working classes saw their weekly pay increase 103% between 1913 and 1938. Radio, cinema, housing, and sanitation all became part of social life and were viewed as rights rather than privileges (Rubinstein, 1986: 74, 78). Despite the depression, economic life had become more congruent with expectations about how the economy should work among the working and lower-middle classes.

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<sup>13</sup> This was rectified by a manifesto on “The Means to Prosperity” that outlined a program for state-support demand management policies. *The Times* 03.13-16.1933.

During the mid-1930s the British government expanded its reach into some areas of economic life. In 1934 Neville Chamberlain, the Conservative Chancellor of the Exchequer, placed the total management of unemployment insurance with the central government. The British Treasury also redirected its intervention into the economy. By 1937 it had not fully implemented Keynesian demand management policies, but planned to use increased government expenditure to mitigate the next severe economic downturn. Without large government expenditure on road works, the Treasury feared the government would see major public opposition (Peden, 1984: 177-8). Similarly, while in 1930 the Labour party had opposed the notion of an instituted 40-hour week at the International Labour Organization, by 1935 National Government representatives led multilateral discussions to quell social unrest among the working classes back home (Lowe, 1982: 259). Attitudes about the role of state intervention had therefore crystallized around issues that had stirred great frustration among the working classes and were expressed through axiorational behavior.

Accordingly, the British government intervened into the economy to encourage a housing boom for the working classes (see Figure 3 for overall houses built). In 1933 the Housing (Financial Provisions) Act provided an implicit government guarantee to building societies to support the development of working class housing. British banks, in part due to their isolation from manufacturing, were in a position to borrow and did so. As a consequence, building boomed (see Figure 3) and the industry accounted for 30% in increased employment between 1932 and 1935 and 32% of total investment within Britain between 1930 and 1938 (Feinstein, 1965: 36). Eventually some predatory practices by building societies led to legislation in 1939 that curtailed their activities. However, the progress in narrowing the gap between legitimacy claims and contests

during a period of economic depression provided a patina that became the foothills of the Keynesian revolution of the 1940s (Oliver and Pemberton, 2004; cf. Blank 1977).

### **Conclusion: Legitimacy and Everyday Institutional Change**

Studies of domestic institutional change and international economic crises typically view the drivers of change as materially-self interested coalitions or ideational entrepreneurs who establish path dependent changes during a period of crisis and uncertainty. Rationalist and constructivist approaches focus on punctuated equilibrium models in which elites generate the choice set of options for institutional change. Such approaches obscure how everyday actions from the broader population can alter the evolution of an institution from a path established by elites in crisis and uncertainty. As detailed above, legitimacy gaps in interwar Britain highlight that in contrast to the conventional view, this was a period with significant policy experimentation that relied on neither dramatic coalitional configurations nor the ideational lead of Keynes (cf. Gourevitch, 1986: 136). The impetus for these experiments came from contests from below, from changing conventions and perceptions of life chances among the working and lower middle classes.

I have argued that elite-centric approaches of institutional change view legitimacy as established by command or by proclamation. Such approaches fail to provide a “historical sociological” understanding of change, which as noted above was Gourevitch’s aim, as well as that of many economic constructivists. They also replicate a general problem in the literature on institutional change: how to understand the “gap” between policy design and the efficacy of institutions as due to “the broader social environment and/or the characters of the actors themselves” (Pierson, 2004: 108-9). To address this problem I proposed a study of legitimacy gaps that emphasized three types

of influence on institutional change not sufficiently addressed in the contemporary literature: defiance, mimetic challenge, and axiorational behavior. All three types involve non-elite contestation of the legitimacy claimed by elites.

The last of these three types, axiorational behavior, has a great capacity to augment economic constructivism by calling on us to question the legitimacy of economic action within a social context and to unravel how economic and social conventions change to create new identities and social purposes (Ruggie, 1998: 869-873). It also reminds us that even if “Economic uncertainty... [was] the final arbiter of working class existence” in interwar Britain (Meacham, 1977: 103), people called upon their own ideational resources in everyday life and, in doing so, affected institutional change. If our focus is limited only to studying how elites behave, then we miss out on understanding processes of broader social legitimation that underpin thinking about how economy should work both at home and abroad.

Such an approach also calls upon us to provide a genuine historical sociological understanding of domestic institutional change and international economic crises. This requires that we recognize that actors’ identities, like their interests, are not necessarily stable through time. For example, why should we immediately assume a link between the Labour party’s inability to signal a credible commitment to the Gold Standard and trade union influence? (Simmons, 1994). By 1930 trade union membership had halved from its 1920 high of 8 million, and even then only half of the remaining groups were willing to give the Labour party financial support (Savage and Miles, 1994: 55, 81). Such relationships must be historically specified rather than assumed. Similarly, we should be careful in identifying our current period of economic globalization with a breakdown of “Keynesianism”. As a set of ideas for institutional change, Keynesianism in the post-war period was

just as contingent and contested as its development was in the 1920s and 1930s (Oliver and Pemberton, 2004).

Finally, the British interwar case demonstrates that periods of crisis and uncertainty cannot be understood in abstraction from the conventions and life chances that provide the benchmarks for legitimacy among the broader population. It reminds us that institutions are continually remade in everyday life and permits us to downgrade the emphasis on discrete moments of crisis and elite uncertainty in material and ideational approaches to institutional change.

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