Big Business in Europe's Economy and Society

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Big business is a twentieth-century phenomenon: large firms played a marginal role in the working of the world economy until the last decade of the nineteenth century, with the exception of railway companies, which by then had become either nationalised or highly regulated. But big business is also one of the most important phenomena of the twentieth century, whether one considers its economic, social, or political impact. Nevertheless, the business world has remained on the fringes of the study of contemporary European history. One reason might be that big business is more readily associated with the United States than with Europe. Another is the excessive fragmentation not only of the historical discipline but of business history as one of its sub-specialties. In the last two or three decades, business history has developed along three quite separate lines of approach: economic (including questions of business strategy and business performance), social (including businessmen's social origins and education, networks of relationships) and political (business interest groups, state intervention and so on). This paper will attempt to take a global view and reflect on four aspects of big business in Europe in the twentieth century: to what extent it can be considered as a European phenomenon; what its main characteristics have been and what has differentiated the major European economies; what the contribution of big business to economic development has been; and what importance should be attached to culture when dealing with European business matters.

Big business: a US or a European phenomenon?

The notion of big business is more readily associated with the United States than with any European country, let alone Europe taken as a whole. Consider for example the literature on the subject: *The Modern Corporation and Private Property* by Berle and Means (1932), *The Managerial Revolution* by James Burnham (1941), *Strategy and Structure* by Alfred Chandler (1962) and *The New Industrial State* by J. K. Galbraith (1967) – four classic publications – are all primarily if not exclusively concerned with the United States. They have admittedly all been written by American authors, but there are no comparable classics devoted to European big business. Not only do these studies primarily deal with the United States, but US

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big business, especially in Chandler's concept of the 'modern industrial company', has long been considered as a yardstick by which to measure other countries' level of economic development.

This overwhelming interest in the United States is borne out by the respective sizes of the largest US and European companies. In 1917, 280 US companies had total assets of $20 million or more,[1] which could be considered as a reasonable lower limit for big business status. In Germany, only twenty-four companies had reached this size (80 million marks) in 1913,[2] and this was the country usually considered as coming closest to the US model of big business development. Things hardly changed in the course of the century. In 1938, according to Schmitz's estimates, thirty-four of the fifty-two largest companies were American, with eleven British, four German, and two Dutch.[3] In 1972, the 300 largest US industrial companies all had a turnover of $400 million or more, a size reached by sixty companies in Britain, thirty-eight in Germany and twenty-nine in France.[4]

Such disparity raises the question of the extent to which one can talk of big business in Europe. A rather rhetorical question in truth: there can be no doubt about the reality of big business in Europe, whether considered in absolute or in relative terms. There is no agreed definition of big business in terms of the minimum size a company should reach in order to be considered as large. To facilitate comparisons between the major European economies, I have recently suggested 10,000 employees and a share capital rising from £2 million before 1914 to £5 million in the mid-1950s.[5] Such a yardstick, as we shall see, reveals as many differences between European countries as between Europe and the United States. Big business, however, is usually approached within a national context and equated with the largest industrial companies, with lists of the 50, 100 or 200 largest companies being established for that purpose in most industrialised countries. Of course, there is no guarantee that the *largest* companies of a given country are all *large* companies, especially in the smaller European countries, but even in Germany, the top 200 companies in 1930 includes many medium-sized firms. One example is Daimler-Motoren, ranked 101st in 1913, whose total assets did not reach $6 million, with just over 3,000 workers. To the extent that big business has a relative and a symbolic significance, this does not matter: it is the top 100, 200 or whichever *round* number is chosen, which represent, together with some other interests (finance, multinationals), a country's world of big business.

The perception of big business by contemporaries has always been strong in European countries. In France the *dynasties bourgeoises* of Emmanuel Beau de

[1] A. Chandler, *The Visible Hand. The Managerial Revolution in American Business* (Cambridge, MA: Belknap, 1977), Appendix A, 503–12.

[2] A. Chandler, *Scale and Scope. The Dynamics of Industrial Capitalism* (Cambridge, MA: Belknap Press, 1990), Appendix C.1, 696–704.

[3] C. Schmitz, *The Growth of Big Business in the United States and Western Europe, 1850–1939* (Basingstoke and London: Macmillan, 1993), 32–3.

[4] Figures from *Fortune*, Sept. 1973.

[5] Y. Cassis, *Big Business. The European Experience in the Twentieth Century* (Oxford: Oxford University Press, 1997), 3–8.

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Loménie and the mythical *deux cents familles* are made up of the great banking and industrial families and their connections in the social and political sphere, admittedly a vague political perception of the world of big business.[6] During the Popular Front the *grand patronat* was more clearly identified as the country's largest companies, and strongly criticised by representatives of small and medium-sized enterprises following the signature of the Matignon accords.[7] At a more academic level, Rudolf Hilferding's *Das Finanzkapital* (1910) proposed an analysis of the formation and composition of Germany's big business at the turn of the twentieth century – through the merger between banking capital and industrial capital under the leadership of the big banks. Henry Macrosty's *The Trust Movement in British Industry* (1907) was inspired by the wave of mergers from which emerged a core group of giant companies in most economic sectors.

Historians' attitudes have been more ambivalent. On the one hand, the strong influence of Marxist theories has led, in all countries, to a strong emphasis being put on the power of big business, especially in works of political history. The best-known examples are the now outdated analyses of the origins of Fascism, or of imperialist expansion. In economic and business history, on the other hand, historians have been more circumspect about the rise of big business, in particular in France and Britain. In both countries it has often been assumed, wrongly as we shall see, that the emergence and development of large enterprises took place later than in other industrialised countries, in the first place the United States and Germany; this was long seen as a major explanatory factor of the 'backwardness' of the French economy until the mid-twentieth century and of the 'decline' of the British economy in the late nineteenth century.[8]

The characteristics of European big business

Can one talk of 'European' big business in the twentieth century? As always, there has been a mixture of common features and national specificities, though the latter far outweighs the former. The most striking feature common to all European countries in the first half of the twentieth century, which clearly distinguish them from the United States, is the persistence of family ownership and, to a large extent, control within large companies. Before 1914 this was the case with most of the

[6] See in particular E. Beau de Loménie, *Les responsabilités des dynasties bourgeoises*, new edn (Paris: La Librairie Française, 1977), 5 vols, which is a controversial interpretation of French history since 1789 in terms of the influence of a group of bourgeois families. See a criticism of the political implications of this analysis in J.-N. Jeanneney, *L'argent caché. Milieux d'affaires et pouvoirs politiques dans la France du XXe siècle*, 2nd edn (Paris: Seuil, 1984).

[7] See in particular I. Kolboom, *La revanche des patrons. Le patronat français face au front populaire* (Paris: Flammarion, 1986); R. Vinen, *The politics of French business 1936–1945* (Cambridge: Cambridge University Press, 1991).

[8] For a recent discussion of these two historiographical debates, see Y. Cassis, 'Divergence and Convergence in British and French Business in the Nineteenth and Twentieth Centuries', and 'Big Business in Britain and France, 1890–1990', both in Y. Cassis, F. Crouzet and T. Gourvish, eds., *Management and Business in Britain and France. The Age of the Corporate Economy* (Oxford: Oxford, University Press, 1995).

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largest companies: Krupp and Siemens in Germany, Schneider and de Wendel in France, Imperial Tobacco and Barclays Bank in Britain, to give but a few examples. Differences existed between countries: interestingly, the lowest percentage of inheritors among the chairmen and chief executives of leading companies was in France, not in Germany – respectively 17 and 18 per cent in 1907 and 26 and 34 per cent in 1930.[9]

A second characteristic is the extent of full or part state ownership, which dates back to well before the postwar nationalisations – for example the nationalisation of the Prussian railways network in 1879, the British government share in the Suez Canal Company and the Anglo-Persian Oil Company, the French government involvement in the Compagnie Française des Pétroles; the part ownership of gas and electricity supply companies by local authorities in all countries, especially in Germany. The postwar nationalisations greatly increased the share of state ownership, in the first place in Britain and France (with coal, electricity, gas, civil aviation, railways, the central banks, as well as iron and steel, in Britain, and the commercial banks, insurance companies and the motor company Renault in France).[10] State ownership had even been greater in Italy since the formation of the IRI (Istituto per la Reconstruzione Industriale) in 1933, which controlled most of iron and steel, mechanical and electrical engineering and shipbuilding, as well as the country's three largest banks. And it should not be underestimated in Germany, where part of manufacturing industry, besides public utilities, transport and communication, was already in state hands; its share extended to as much as 50 per cent of the automobile industry (through direct ownership of Volkswagen) and to 20 per cent of coal, iron and steel, as well as substantial interests in shipbuilding and chemicals (in this case indirectly, through holding companies such as VEBA or VIAG). In the same way, a trend towards privatisation can be observed in all European countries since the 1980s, though proceeding at a different pace.

National specificities were more pronounced in the early part of the century and a clear convergence can be observed since the 1950s. A first difference was the uneven degree of big business development. It is often assumed that large firms emerged earlier in Germany than in Britain and France, and general conclusions about the three countries' economic, social and political history have been drawn from this assumption. In fact, Britain, rather than Germany, has been the home of big business in Europe, while France has been much closer to Germany than is usually thought. Before the First World War, in 1907, there were ninety-three British companies working with a share capital of £2 million or more, as against only forty-five in Germany and twenty-one in France; in 1930, 186 British companies had a paid-up capital of £3 million or more, as against fifty-five in Germany – and two in France, the comparative size of French companies being distorted by the devaluation of 1928.[11] Another characteristic of British big business

[9] Cassis, *Big Business*, 126, 131–2.

[10] See special issue on 'Les nationalisation d'après guerre en Europe occidentale', ed. A. Prost, *Le Mouvement Social*, April–June 1986.

[11] Cassis, *Big Business*, 10, 34.

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was its early diversity. During the first part of the twentieth century, big business was almost synonymous with banking and heavy industry in Germany and France: in 1907, for example, 71 per cent of the German companies with a paid-up capital of £2 million or more were banks and coal, iron and steel companies, as against only 33 per cent of the large British companies; the rest was to be found in all branches of manufacturing industry, especially consumer goods, as well as in services, where big business had penetrated a far wider range of activities (shipping, distributive trades, the press) than in continental Europe.[12] Since the 1950s, convergence has occurred in both the number of large companies (though Britain has retained a lead) and their sectoral distribution. By the early 1970s, net parallels could be established between the handful of companies which dominated the major industries of their respective country: British Leyland, Renault, Peugeot, Citroën and Volkswagen in motor cars; ICI, PUK and Rhône-Poulenc, and BASF, Bayer and Hoechst in chemicals; GEC, Thorn and Plessey, CGE and Thomson, and Siemens and AEG-Telefunken in electricals; Barclays, Natwest, Midland and Lloyds, BNP, Crédit Lyonnais and Société Générale, and Deutsche, Dresdner and Commerzbank in banking, and so on. However, the persistence of deep-rooted national characteristics should not be entirely dismissed, for example the weight of heavy capital goods in Germany, or of consumer goods and services in Britain. In fact, divergence has again been the dominant feature with the de-industrialisation of the last twenty years.

Differences were more pronounced in the ways in which big business was managed in each country. By the early twentieth century, most large companies had been incorporated, despite the persistence of family interests which, as has been pointed out earlier, was a common characteristic of all European countries. However, large companies were run differently. German companies had, and still have, two boards of directors (an executive board and a supervisory board), French and British companies only one.[13] The board of directors of a British company was more involved in the management of the firm than that of a French one. The concentration of power in the hands of a single 'number one' has been pushed to its limit in France as a result of the 1940 company law, which rendered mandatory the merger of the functions of chairman and managing director, thus creating a new all-powerful executive, the *PDG*, or *président directeur général*. After the war, membership of the supervisory board of German companies was extended to workers' representatives, an example which has not been followed in the other countries. The recruitment of business leaders has also followed specific routes in the various European countries, thus affecting their outlook and reinforcing differences in what is known today as corporate governance. Admittedly, the vast majority of them came from a middle- and upper-middle-class background, including a high percentage of

[12] *Ibid*., 10–11.

[13] Good comparisons, from both a legal and historical standpoint, in N. Horn, 'Aktienrechtliche Unternehmensorganisation in der Hochindustrialisierung (1860–1920): Deutschland, England, Frankreich und die USA im Vergleich', in N. Horn and J. Kocka, eds., *Recht und Entwicklung der Grossunternehmen im 19. und frühen 20. Jahrhundert* (Göttingen: Vandenhoeck & Ruprecht, 1979).

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businessmen's sons.[14] Education, however, remained deeply rooted in the national traditions leading to elite positions, whether in business, politics, the state administration or the professions: public schools and the ancient universities in England, the *lycée* and the *grandes écoles* in France, the *Gymnasium* and a university degree in Germany. Career patterns also varied, especially between France, where a majority of business leaders has traditionally come directly from the civil service, and other countries, where experience gained within the corporate sector has been the norm.

Business organisation has also displayed national rather than European characteristics. The debate has recently centred on the respective merits of alternative models of capitalisms: an Anglo-Saxon type of 'free market' capitalism, a Germanic type of 'social market' capitalism, and a Latin type of 'state' capitalism.[15] However, similar differences have been discussed since the emergence of big business. The relationship between finance and industry, which forms an integral part of the current debate, has been one of the most controversial issues, whether in relation to the 'decline' of the British economy or to the 'power' of the German banks. In Britain, banks have been accused of keeping industry at arm's length, of being reluctant to provide long-term finance and assume industrial leadership, while the capital markets, which have traditionally played a greater role in industrial finance than in continental Europe, have been blamed for their excessive segmentation and imperfect information. From this perspective, German-style universal banks provide the counterpoint, with their long-term commitment to industry and their superior access to information through their massive representation on the supervisory boards of industrial companies.

Do these differences matter? The answer is 'no' if one considers their impact on business and economic performance. The type of relationship between banks and industry, for example, had little effect on the actual provision of funds to industry, which has been adequate in all European countries: recent research has revealed that British banks were closer to industry than was usually assumed, and that the leadership, let alone the control attributed to German banks, had been vastly exaggerated.[16] A similar case could be made of the differences between educational systems: the study of classics dominated the curriculum of all secondary schools, not only the English public schools; teaching was too theoretical in all universities, not only the French *grandes écoles*; in all countries (including Germany), business leaders were trained as generalists rather than specialists, with, until very recently, hardly any reference to business and management studies.[17] The more important question

[14] H. Kaelble, 'Long-Term Changes in the Recruitment of Business Elites: Germany Compared to the US, Great Britain and France since the Industrial Revolution', *Journal of Social History*, Vol. 13, no. 3 (1980).

[15] H. W. De Jong, 'European Capitalism: Between Freedom and Social Justice', *Review of Industrial Organization*, 10 (1995), 399–419. See also M. Albert, *Capitalisme contre capitalisme* (Paris: Seuil, 1991).

[16] The literature is vast on the subject. For the most recent appraisals see J. E. Edwards and S. Ogilvie 'Universal banks and German industrialisation: a reappraisal', *Economic History Review*, Vol. 49, no. 3 (1996), 427–46, and M. Collins, 'English bank development within a European context, 1870–1939)', *Economic History Review*, Vol. 51, no. 1, 1998, 1–24.

[17] Cassis, *Big Business*, 132–42.

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is the role played by big business, whatever its form of organisation, in economic development.

Big business and economic development

It must be said from the outset that the relationship between business performance and economic performance has never been clearly established. The consensus has long been that big business favours economic growth. Politicians have certainly shared this view and, in particular in the 1960s and 1970s, encouraged if not prompted far-reaching mergers aimed at creating companies sufficiently large to meet the 'American challenge' and compete successfully in the world markets. The embodiment of this policy of 'national champions' was most spectacularly, though by no means exclusively, expressed in France, where the perception of an economic backwardness due to a lack of large firms was still acute.

At a more academic level, the contribution of large firms to the growth of industrial capitalism is best known through Alfred Chandler's monumental work, which has dominated business history for more than three decades, generating a huge amount of research in this field.[18] It has now become common sense to acknowledge that large firms emerged in the industries of the 'second industrial revolution' (electricity, chemicals, motor cars, oil, branded packaged products and so on) as a result of the economies of scale and scope which could be obtained from the new technologies of high volume production; that in order to benefit from these technologies and gain an early competitive advantage, firms had to make a 'three-pronged' investment, in production, marketing and management; and that in order to implement their strategy of increased integration and diversification, firms had to set up new managerial structures – functional, and later multidivisional.[19] These general characteristics apply to Europe as well as to the United States, despite widespread criticism of the use of the Chandlerian concepts, derived from the US experience, for the analysis of European business. This is not the place to discuss these controversies. Suffice it to say that the new industries in western Europe developed from an early stage into large enterprises, with managerial structures broadly conforming to the Chandlerian model.

Large firms have thus displayed a number of positive features, especially a depth of managerial talent and high spending on research and development, which, together with their concentration in the more technologically advanced industries, should be highly conducive to economic growth. But has this really been the case? The problem lies in going beyond this general proposition. The task is not simple. Chandler's attempts at linking business organisation with economic performance have proved particularly weak and are mainly based on dangerous misconceptions about the superiority of the US model, and, regarding Europe, about the success of

[18] See the recent overview in A. Chandler et al., eds., *Big Business and the Wealth of Nations* (Cambridge: Cambridge University Press, 1997).
[19] See Chandler, *Scale and Scope*.

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the German form of 'co-operative managerial capitalism' in contrast to the failure of Britain's 'personal capitalism'. Similar efforts along these lines by some of his more theoretically minded followers, such as William Lazonick, have also remained inconclusive.[20] One of the difficulties of this approach is that throughout the twentieth century, British big business performance has outdone that of its continental rivals. British companies have consistently generated higher profits than their French and German counterparts, and they have achieved higher rates of return on their shareholders' equity. Moreover, higher profits and profitability have not been achieved at the expense of long-term development: by and large, British leading companies have survived longer and in greater number than their French and German competitors; they also grew faster until the 1950s before being caught up in the following decades.[21] And yet the growth rates of real gross domestic product (GDP) per head of population between 1870 and 1989 were respectively 1.4 per cent for the United Kingdom, 1.8 per cent for France, and 2 per cent for Germany.[22]

Such a discrepancy between business performance and economic performance can be explained by a number of factors. There are of course the effects of economic convergence and catching up with the leader, which explain, at least partly, Britain's slower economic growth than her European neighbours, especially in the three decades following the Second World War.[23] Another explanation could lie with British firms' multinational expansion which enabled them to take advantage of producing in faster growing economies – Britain's share of world foreign direct investment amounted to 15 per cent in 1980, as against 8 per cent for Germany and 4 per cent for France.[24] A more general explanation, at least for the early part of the century, is of course that big business only accounted for a small part of economic activity. Before 1914, the share of the largest 100 firms in industrial output has been estimated at about 17 per cent in Germany, 15 per cent in Britain and 12 per cent in France, leaving, in all three countries, more than 80 per cent in the hands of small and medium-sized companies. By 1930 the percentage had risen to respectively 20 per cent in Germany, 26 per cent in Britain and 16 per cent in France. Only in the 1970s did it approach the 30 per cent mark in Germany and France and 40 per cent in Britain. For all that, business concentration has not been a guarantee of economic success. In the 1970s, Britain combined the highest level of industrial concentration among the large European economies with the lowest rate of economic growth, Italy the lowest level of concentration with the fastest growth rate.

[20] See W. Lazonick, *Business Organization and the Myth of the Market Economy* (Cambridge: Cambridge University Press, 1991).

[21] Cassis, *Big Business*, 73–118.

[22] A. Maddison, *Dynamic Forces in Capitalist Development* (Oxford: Oxford University Press, 1991), 49.

[23] See C. Feinstein, 'Success and Failure: British Economic Growth since 1948', and B. Supple, 'British Economic Decline since 1945', both in R. Floud and D. McCloskey, eds., *The Economic History of Britain since 1700*, 3 vols., 2nd edn (Cambridge: Cambridge University Press, 1994), III, 95–122, 318–46.

[24] G. Jones, *The Evolution of International Business. An Introduction* (London: Routledge, 1996), 47.

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All this has raised doubts about the conventional wisdom linking big business with economic growth. Giant firms have been exposed to risks of bureaucratisation and weakening innovative capacity, of excessive diversification, and of insufficient competition in their domestic market, leading to a gradual erosion of their competitive advantage. At the same time, small and – especially – medium-sized firms have been rehabilitated and their contribution to economic development reconsidered. Germany's economic strength in the postwar period has often been seen as resting on its *Mittelstand*, its medium-sized family firms excelling in occupying niches in high-quality products. To relativise the importance of big business, however, is not to deny its importance: as Alfred Sloan, the legendary head of General Motors in the interwar years, put it: 'the size of a competitive enterprise is the outcome of its competitive performance'.[25] The question is rather to put big business into its proper perspective. This is one of the directions taken by business history in the post-Chandler era.

European business culture

Traditional views are full of clichés about the aversion of European culture to business in general and big business in particular during all or part of the twentieth century, and the reluctance of some western European countries to espouse the central institution of modern capitalism. The composition of the upper classes in the prewar years has been invoked, with the fatal attraction of the most successful businessmen for an aristocratic way of life leading them to abandon their business obligations (in the English version), or their political mission (in the German version). Education is another favourite target, especially in England, where the public schools have been held responsible for diverting their students from business careers or providing them with the worst possible training for a business life. Sociopolitical factors are also part of the equation, for example a balance of power favourable to pre-industrial forces such as small farmers and small businessmen, which allegedly 'blocked' the development of big business in France. Resorting to national mentality has possibly been the most common practice adopted: a business class lacking entrepreneurial spirit, or insufficiently motivated by profits. The list could be continued.

Many of these myths have been dispelled by recent historical research. However, this has mainly been done by social historians dealing with the pre-1914 period.[26] These results have yet to be fully integrated into hard-core business approaches,

[25] A. P. Sloan, *My Years with General Motors* (New York: Doubleday, 1963), xxvi.

[26] See for example Y. Cassis, 'Businessmen and the Bourgeoisie in Western Europe', in J. Kocka and A. Mitchell (eds.), *Bourgeois Society in Nineteenth-Century Europe* (Oxford and Providence: Berg, 1993); W. D. Rubinstein, *Capitalism, Culture, and Decline in Britain 1750–1990* (London: Routledge, 1993); D. L. Augustine, *Patricians and Parvenus. Wealth and High Society in Wilhelmine Germany* (Oxford and Providence: Berg, 1994); H. Berghoff and R. Möller, 'Tired pioneers and dynamic newcomers? A comparative essay on English and German entrepreneurial history, 1870–1914', *Economic History Review*, Vol. 48, no. 2 (1994), 262–87.

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where 'cultural' explanations can lack subtlety. Moreover, such results are mostly 'negative', revealing the fallacies of cultural explanations relying on easy generalisations about national culture. The use of the comparative method has played an essential role in that respect. The question is where this leaves the cultural dimension, which is often seen as historians' most original contribution to the study of economic and business matters. In other words: how can it be used 'positively' and still go beyond the obvious, for example stating that a high enrolment of students in science and technology courses is likely to favour the emergence and development of science-based industries. The answer is not easy, but a first step in the right direction would surely be to give up the hierarchical rankings of countries, to which economic and business history has been so prone and which is even more ingrained in the business and management approach, and, as a corollary, to use culture for explanatory rather than for prescriptive purposes.

The characteristics of European big business, briefly discussed above, can be re-examined in this light. National differences had little impact on business performance, but they did affect business practices, including industrial relations, relationships between government and business, innovative processes, political lobbying and so on. They can also affect certain industries at certain times: the concepts of 'institutional sclerosis',[27] of 'institutional rigidity',[28] which have been used unconvincingly in connection with Britain's economic decline, can better explain the temporary difficulties faced by some sectors, for example the old industries in a period of rapidly changing technologies, or by some firms. In the end, cultural factors are best used to explain why business institutions took a specific shape in each European country and, at the level of the individual firm, to reveal the distinctive features of successful – and unsuccessful – companies. This might help to understand why big business integration has remained so limited within the European Union (with no merger between two major companies taking place in 40 years until the announcement in 1998 of the link-up between Hoechst and Rhône-Poulenc), which makes it still impossible to talk of a European business world.

[27] See M. Olson, *The Rise and Decline of Nations. Economic Growth. Stagflation and Social Rigidities* (New Haven and London: Yale University Press, 1982).

[28] B. Elbaum and W. Lazonick, 'An Institutional Perspective on British Decline', in *idem*, eds., *The Decline of the British Economy* (Oxford: Oxford University Press), 1986.

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