

Iván T. Berend

An economic history of twentieth-century Europe

INSTITUTE OF HISTORY OF THE HUNGARIAN
ACADEMY OF SCIENCES – HISTÓRIA BOOKS/MONOGRAPHS,
ISSUE 25, 2008



História, the monthly of *Ferenc Glatz*, the former President of the Hungarian Academy of Sciences also functions as a label for a publishing house. They publish chronologies, bibliographies, lecture transcriptions, atlases, document collections and monographs both in Hungarian and in English. For a venture of this profile, the release of a summary volume in Hungary (already published in England) by a scientist who refers to himself as an American Hungarian¹ is an apt choice. We are way too familiar with the gap that has become permanent by now between international book prices and the means of domestic collections (even the seemingly richest ones). This gap has made the regular procurement of latest international technical literature an unaffordable luxury² and it is probably further aggravated by the avarice of textbook authors and reviewers and by overall frugality which hits higher education more than before thanks to the Bologna process. On

top of all that, a new education approach is gaining ground which focuses on single textbooks and concise reading materials available on the internet. In this approach, the education of professionals with a genuine intellectual mindset is no longer part of the mission (respect to exceptions). In this state of crisis, special appreciation should go to the publisher who released this lastingly valuable and in many ways direction-setting piece of work in a high-quality translation.

Iván T. Berend's career consists of sharply distinct phases, starting from meticulous research in archives, continued with the comparative analysis of economic policies and then the third phase dominated by large summary volumes. The reader is informed right at the beginning (page 10) that the book offers a *long-term comparison of economic systems along specific criteria* instead of providing a thoroughly documented review of economic growth,

policies or economic structures. In the forefront of the analysis are the presentation of failed convergence attempts and the investigation of underlying causes. The author openly admits his bias in terms of values when describing the universal welfare state as “...probably the biggest accomplishment of mankind” on pages 15–17. At the same time, he mostly rejects but does not challenge the economic doubts raised about the *sustainability* of this model, either here or in the closing chapter of the book. While this approach is not unusual in summaries that rely on similar considerations (in domestic technical literature, Béla Tomka's work³ is a recent example), it should not be regarded as an obvious one either.

The book reviews the period between 1870 and 2000 in six chapters. All the way through, the approach follows the school which compares old and new globalization. In the English original, it is expressed with the title “from free market to globalization”. The key viewpoint of this approach is that government control over the economy in the form that evolved after 1914 and remained dominant until 1990 is the mainstream system and more competition-oriented and market-driven alternatives from before and after that period were deviations. There is nothing wrong with representing this viewpoint (many do so in literature) but it is definitely not the majority view in economics.

■ Chapter 1 reviews the 1780–1918 period and considers the first of these centuries as a kind of a prelude. The author comes to three fundamental conclusions:

① Contrary to the widely shared views of *Dickens* and *Marx*, the long 19th century was not a period of mass poverty but that of unprecedented development of mankind, not only in terms of income but also in respect of each human development index (HDI).⁴

② The convergence of Scandinavia gained impetus between 1870 and 1913, i.e. the development of the welfare state should definitely

be regarded as a *premise and not as a consequence*.

③ While the monarchy of Austria–Hungary did not converge in the sense that *Lenin* described as “catch up with and surpass”, the benchmark for its development was Germany, the most powerfully developing economic hub at the time. Therefore, contemporary thinkers had good reasons to call the era the “happy golden years of peace” (page 44) as it was more dynamic as preceding and subsequent periods. In the meantime, other regions, in particular the Balkans, Italy and Russia tailed off somewhat and Iberia fell behind, too.

■ Chapter 2 discusses the 1914–1933 period as an era with uniform characteristics. Taking on the opinion of *Keynes* from 1924 (and contrary to mainstream economic opinion about the era), it views the expansion of government intervention as *normality instead of deviation or a temporary loss of direction* (page 45). Consequently, the author views the war economy of WWI (pp. 51–59) as a herald of the future while economists of the time considered it an exceptional state. This way, despite the obvious accomplishments, the return to the market in the “roaring twenties” (sung by so many and not only in literature) may have seemed like an illusion. Economic nationalism which evolved at a different pace and to a different extent in small countries (described on page 60 plainly as the “thirty-year war”) became the norm as outlined by *E. H. Carr*, although obviously not in the best and desirable sense but as the “average”, using the term introduced by *Kuznets* (page 64). From this viewpoint, 1929–1933 was not a derailment caused by major economic policy mistakes as one would think based on the now classic analysis by *Friedman* and *Schwartz*⁵ and the book of (later FED chairman) Ben Bernanke half a century later (2005)⁶ but a necessary outcome of economic policy and theory development in former periods. Many authors at the time (e.g.

Ákos Navratil⁷) and later (Abay-Neubeuer⁸) considered government interference and its generalization by Keynes a wrong approach that amplifies problems.

At the same time, Iván T. Berend aptly underlines (page 67) that the increasing adaptation of market protection itself became a reason of the escalation and evolution of the crisis into a worldwide turmoil. Taking these observations further, on pp. 75–77 the author describes controlled economies as examples of a *matured theoretical model* and not as improvised solutions. In fact, Keynesian teachings were considered “esoteric” at the time and were only adopted as elements of good manners in economic policy much later, during the fifties and the sixties. On page 83, war economies are cited as role models too, what is more, as the hotbed of *every* economic policy experiment of the 20th century. This is certainly not valid for the period after 1989 and, in my opinion, it is not valid either for the original German version of social market economy in the 1940s which was characterized by relatively moderate income redistribution, powerful competition policy, intensifying international trade and price stability, not to mention the United States variant.⁹ For *Walter Eucken, Wilhelm Röpke* and their followers created their solutions just as confronting alternatives to controlling economies. Furthermore, America always built on free competition which the prosperity policy of the New Deal only dampened but never eliminated. But the author mainly means his statements for the “short twentieth century” of 1920–1989, in particular to Europe. Besides, although no conclusions are drawn in the summary, the author aptly points out that Europe's *backlog in the global economy* became irreversible *just in the heydays of these experiments* i.e. between 1914 and 1944 (pp. 83, 89, 92–93, 97).

■ The subject of chapter 3 is dirigisme. The common feature of the related models is

wartime mobilisation, welfare populism, direction by a leader figure and a closed economy which professor Berend interprets as a kind of a development dictatorship (page 96). He points out some nice and exciting similarities between Southern European and German solutions, underlining the spiritual leadership and initiative role of Italians (which of course was not supported by economic power, while in Germany it was just the other way around). What is painfully missing from this comparison is the solution that proved to be the most lasting one, created by *Mustafa Kemal Atatürk*. The characteristic feature of the Italian model is the merger of the state and the governing party (page 101), self supply, the combination of welfare, a leader figure and a series of solutions which later generations got to know in a very different context, from the heroic mother through the breaking of virgin lands to free, centrally organized and cultured pastime activities for the masses. The author rightly points out (page 111) that average annual growth in Europe hardly reached 1 per cent at the time of this model.

■ Chapter 4 presents the “planned economy” system. The author highlights (pp. 132–137) that this model was the offspring of the German war economy during WWI and principally served modernisation subordinated for war purposes (page 146). The thorough explanations presented in this chapter fail to highlight sufficiently that Marxian daydreams merely had a fig leaf role after they were implemented in Lenin-style revolution and the rebuilding of the empire by Stalin that started in 1922. Professor Berend rightly points out (page 135) that the Marxian vision could only become a society-shaping force after it was fundamentally reinterpreted in the German social-democratic movement (completely independently from its scientific value which was disputed right from the beginning). Quoting the author, in the wake of the Kronstadt rebel-

lion¹⁰, *Lenin* became a “pragmatic politician” (page 140). In other words, after making a series of 180-degree turns, he no longer relied on Marxian teachings and neither did his successor, *Stalin*. The “socialism in one country” approach represented a fundamental change of strategy: world revolution was replaced by imperial nationalism (page 144). We should add that the three pillars of czarism, populism, autocracy and the state religion of a single true faith (*pravoslavije*) was restored by 1922–1924 at the latest.

Then the author outlines the development of the next period, 1922–1940. Unfortunately, however, he mostly relies on the well-known statistics from the era instead of the recalculations by *Abram Bergson*¹¹ or *Bernhard Heitger*¹² which provide a more realistic overview. Had he used these latter sources, he would hardly have written about “nearly miraculous growth” (page 148 and the subsequent pages) neither here nor in the context of other periods.

On pages 148–154, the author describes the evolution of the two-pole world with the development of blocks on both sides but refers to this process as a predestined and inevitable one. However, the analyses of the second Paris peace treaty (Fülöp and Sipos¹³, Romsics¹⁴) suggest that the idealism and constructivism embodied in the United Nations structure, the *chance* for a new world order that is built on cooperation was not zero at all between 1943 and 1947, no matter how many times we all learned so from the endless flow of works generated under the compelling force of subsequent self-justification. Block policy on an international scale gained dominance because “realistic policy” overcame other approaches, because the world slumped back into 19th century practices of imperial counterbalancing and because former war allies turned against each other in an unforgiving and uncompromising manner. Without these factors, the combina-

tion of “Finlandisation” on a broader scale, a neutral and disarmed Germany, communist participation in the governments of France and Italy and a Russia-supporting Iran would have served better the interests of the soviet empire than the arms race that started in 1946 and was obviously unwinnable¹⁵ for them right from the start.

Iván T. Berend already provided critical analyses of the “planned economy” approach in many of his former books. In this work he objectively points out (page 158) that in this political system which presented itself as the engineer of the future to justify oppression, *the real compelling force* from the very beginning to the very end *was the operational plan* i.e. the set of action plans for 10, 30 or maximum 90 days. While the “welfare package” of the system showed astonishing resemblance to similar solutions elaborated by the nazis, its core scheme of low and equalizing wages and fringe benefits was and remained quite popular even subsequently (page 163).

When providing a final evaluation of the entire system, professor Berend comes to disappointing conclusions (pp. 169–174): *despite* four decades of intense industrialization, qualitative and structural *weaknesses* that reproduced *underdevelopment* remained in place. Why did the very reforms that could have eliminated this outcome fail? As for the author, there would have been a chance for such reforms but real action was scarce (page 177). The combination of backward steps and the loss of perspective sealed the fate of endeavours launched in the late 80s (page 181) which was then followed by free market experiments (page 182 and subsequent pages). Obviously the latter was not a cause but a consequence of the foregoing.

■ The subject of chapter 5 is mixed economy and welfare state in Western Europe in 1945–1980. In this chapter, sharing the opinion of the late *Béla Csikós-Nagy*, the author

describes the period as a veritable *golden age* (pp. 185–186). In this period, new approaches were developed based on former solutions i.e. based on directed economies. The point of the new synthesis was that government regulation was paired up with neo-corporatism, free trade and regulation under the EEC/EC (pp. 186–190). The author discusses in detail the creation of the EEC and the reasons for its establishment. One question remains open though: what could have been the quantitative contribution to aggregate economic performance in that golden era of a system that hardly redistributed 1 per cent of the total GNI?

This chapter reviews the wave of nationalisation from France to Austria, rightly pointing out that state companies in Western Europe, after all, remained market players and their finances were never integrated into central government finances (page 215). The planning approach introduced at the time was indicative and not dictatorial in nature.

The author thoroughly reviews how the universal welfare state gained ground throughout Western Europe. No mention is made, however, of the regular and significant draining of state money which is unavoidable in general redistribution (which the author describes in the words of *N. Barr* as government “piggy bank”), of the related low efficiency, the lack of sustainability both in theory and practice and of the abhorring costs and alienating effect of bureaucracy conveyed by the system (which was perceivable for all of us in Hungary during the experiments with our healthcare system in 2006–2009).

Analysing the interconnections of economic growth and structural change, the author presents the transformations caused by productivity, consumption, mechanization also at households, declining agriculture, servicing society and mass tourism. Unfortunately, no mention is made of the three aspects of sustainability here either: the *natural* (Club of Rome, Gore

panel) element, the *financial* element (old and new Bretton Woods) which has become so timely by today and finally of the *social* element (the conservative revolution triggered by the stagflation experience in the 1973–1979 period). Without examining these elements, however, we can never know whether the label “golden age” for the 1945–1980 era (i.e. up to the second oil price explosion) only has nostalgic value or if it also relies on a scientific foundation. Following the opinion of the late *József Bognár*¹⁶ most economists would assign the 1973–1979 years to the change of eras in the world economy and consider it a time when everything turned upside down instead of linking them to the 1950–1973 period.

■ Chapter 6 discusses globalization as the revival of free market endeavours. The author rightly points out that what we see is the *aggregation* of commercial, financial, technological, organizing, ownership transformation and intellectual processes which mutually strengthen each other (pp. 252–262). The criticism of free market ideologies that follows is hardly comprehensible without direct *memories and mass experience* of stagflation and the collapse of the soviet empire and other “non-capitalist development paths”. We should note that *Hayek* and *Friedman*, the two economists cited by the author definitely did not belong to *mainstream* economic thinking of the era which was manifested in the 70s and 80s in Samuelson's synthesis, i.e. in the reconciliation of neo-Keynesian and neo-classical schools on a methodological basis. The impact of the two great thinkers was more tangible on intellectual life than on applied economic policies.

In the chapter titled Globalization and Europe, professor Berend aptly points out that the shocks in 1973 and 1979 only *amplified* the crisis symptoms observed and described in earlier eras (268 and subsequent pages). The way out of “eurosclerosis” was the transformation of knowledge-based society from slogan to

reality (page 274) in countries (mainly Scandinavian states) where this transformation actually happened. What deserves special attention (especially for believers of historical determinedness) is the fact that former semi-peripheral countries (e.g. Ireland, Finland, Spain and Portugal) converged to the centre in a little more than a quarter of a century between 1973 and 2000.

Examining the connectedness of a mixed economy and the welfare state, the author finds that it is impossible to get away with per-capita welfare expenditures that are the double of similar expenditures in the United States and Japan. For despite all the neoliberal slogans, welfare and social spend (especially pensions) had a *growing proportion* in Western Europe in the period concerned (page 289).

In his evaluation of the entire process, professor Berend points out that globalization does not have a *general* impact as it comes to existence as a function of human capital and the nature of economic policy answers (page 294), further refined by geographical and institutional factors.

Beyond doubt, Europe emerged in the last twenty five years of the millennium as an *economic superpower* (page 304). Its GDP and population reached and exceeded that of the US respectively. Per-hour productivity is the same, but work time is much shorter in Europe. Partly because of this “leisure time society”, the symptoms of falling behind are visible in Europe now. The way of the future is shown by the rise of Asia, where not less than

37 per cent of total global income was generated in 2000 (page 309).

* * *

Perhaps it speaks for itself that the book does not have a closing summary chapter that would directly present the author's view on learnings and future perspectives. Principally targeting American readers, the book has been written in excellent, almost literary language. The stylistic quality of the excellent Hungarian translation is a merit of *Vera Gáthy*. The book undoubtedly serves the cause of raising benevolent interest towards Europe. It is a valuable piece of work which conveys the specific features of summaries. The presentation of interesting stories (from the history of NOKIA to that of the Agnellis) in separate boxes is great and so is the presentation of many illustrative tables and reader-friendly diagrams. Insistence to the global viewpoint throughout the book is a definite strength along with the comparative approach and the openly confessed, traditional social-democratic values of the author which did not wobble with the changes of the past decades. Perhaps a more intense integration of the past two decades' economic literature, the presentation of original data which characterized the former works of the author and more frequent challenging of different viewpoints could have made this book an even more powerful piece of work. Naturally, even in its current form the book is a must-read that fills a gap on the market.

László Csaba

NOTES

¹ Iván T. Berend (2009): *My Life in Three Eras*. New York–Budapest, CEU Press

² While younger generations use the Internet extensively, important books are rarely available online and the use of preliminary versions makes laxity the norm.

³ Béla Tomka (2009): *The history of society in Europe in the 20th century* (Európa társadalomtörténete a 20. században), Budapest, Osiris

⁴ HDI is often (mis)interpreted as an indicator of the level of human development. This is rather funny if we look at humanity in the context of e.g. the car-

bon-dioxide emission of vehicles or waste water treatment. This is the reason for the “neologism” which we apply here. Some take incomparable dimensions and combine them into composite indicators that have no unit of measure, as if the lack of fresh air could be traded in for longer education, at least among women.

- ⁵ Friedman, M. – Schwartz, A. J. (1963/2009): *The Great Contraction, 1929–1933*, Princeton, N. J.: Princeton University Press
- ⁶ Bernanke, B. (2005): *Essays on the Great Depression*. Princeton, N. J., Princeton University Press
- ⁷ Navrátil, Á. (1934/2008): *How economic crises end? (Hogyan szűnik meg a gazdasági válság?)* In: Navrátil, Ákos: *Old truths and new theories in economics (Régi igazságok és új elméletek a közgazdaságtanban)*, edited and foreword by Márta Hild, Budapest, Aula Publishing House, pp. 259–283
- ⁸ Abay-Neubauer, Gy. (1958/1999): *Oeconomica Aeterna*, University of Pécs books, pp. 304–307, 312–318 and 354–357
- ⁹ Regarding the latter, the war industry should be handled separately as its key role was well-known at the time already, along with the ratio of redistribution and direct governance forms which it directly determined and which impacted the entire national economy.
- ¹⁰ For younger readers: Russian marines who carried out the coup-d'état in October 1917 and were stationed near St. Petersburg turned against the Bolsheviks in 1921 in a hunger riot. “Naturally”, the Bolsheviks violently oppressed the uprising. Yet as a result, they gave up wartime communism and embarked on a more allowing policy (resembled by current Chinese politics) in the so-called NEP-era (1921–1929).
- ¹¹ Bergson, A. (1997): *How big was the Soviet GNP? Comparative Economic Studies*, year 39, volume 1, pp. 1–14.
- ¹² Heitger, B. (1992): *Economic growth in the East and the West (1950–1990) (Gazdasági növekedés Keleten és Nyugaton)*, *Közgazdaság* journal, year 35, volume 2
- ¹³ Fülöp, M. – Sipos, P. (1998): *Hungary's foreign policy in the 20th century: Magyarország külpolitikája a XX. században*, Budapest, Aula Publishing House
- ¹⁴ Romsics, I. (2006): *The Paris peace treaty of 1947 (Az 1947. évi párizsi békeszerződés)*, Budapest, Osiris Publishing House
- ¹⁵ There is no precedent that a country could lastingly maintain a war potential that exceeds the multiple of its economic power (the Huns could do it for a couple of decades and the Soviets, too, for approximately 60 years).
- ¹⁶ Bognár, József (1975): *A change of eras in the global economy (Világgazdasági korszakváltás)*, Budapest, Gondolat Publishing House