Introduction

This book is about the twentieth century, although centuries are of course not real historical units. What happened in the first period of that century definitely started emerging during the last decades of the nineteenth century. The Second Industrial Revolution of that period had its real fruition during the next century. The revolts of the peripheries, the rise of wild nationalist and social conflicts, extremism, proto-fascism, communist ideology were all born at that time. The first chapter of this book on the twentieth century consequently incorporates phenomena from the late nineteenth century. The main historical processes of the twentieth century also did not end in 2000, but continued in the early decades of the twenty-first century. Globalization, globalized deregulation, and speculative, casino-type banking had their painful backlash in 2007–8, the most serious Great Recession that did not end in Europe before the late 2010s. The last chapter of the book thus incorporates the very first decades of the twenty-first century as well.

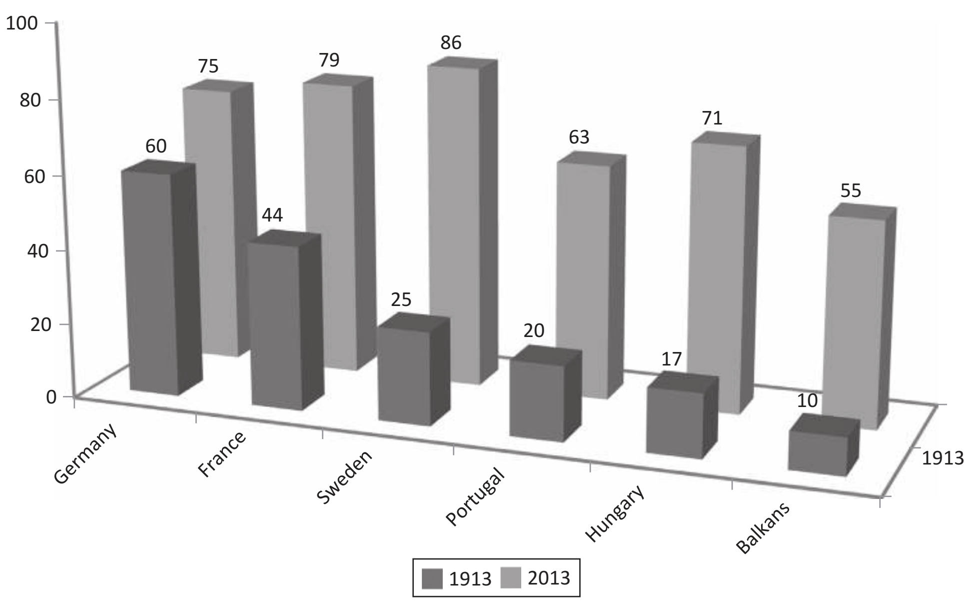
Looking back over that longer twentieth century, one may imagine Charles Dickens's feelings when he reflected on the bloody ending of the eighteenth century. He opened his 1859 *A Tale of Two Cities* with the words: "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair . . ."

Indeed, as Sir Isaiah Berlin expressed it, the twentieth century was the most horrible century of Western history. Eric Hobsbawm characterizes it as the Age of Extremes, "a sort of triptych or historical sandwich: a quarter of a century of a 'Golden Age' between two, equally long periods of catastrophes, decomposition and crisis" (Hobsbawm, 1994: 1, 6). Mark Mazover gave the provocative title *Dark Continent* to his book on Europe's twentieth century, which "brought new levels of violence into European life, militarizing society . . . killing millions of people with the help of modern bureaucracies and technologies" (Mazover, 1998: 404).

This century of extremes was characterized by unprecedented catastrophes and cataclysms. Two modern, industrialized world wars, actually part of the same conflict and now often called the Thirty Years War of the Twentieth Century, were unique in human history. These wars, combined with the sharply declined birth rate and serious diseases that followed (such as the Spanish Flu at the end of the war) caused a 110–120-million-person population deficit on the continent. Economic nationalism, a war without weapons, characterized the two-decade-long “armistice” of the so-called interwar years. The Great Depression of the 1930s and the Great Recession of 2007–8 to the 2010s are history’s most devastating economic disasters. And in order to fully understand the unparalleled human and economic tragedies, one must include the several-years-long period of devastating world-record hyper inflations after both world wars, which caused so much human suffering. Having said that, how could we forget the other side of this Janus-faced twentieth century?

The twentieth century radically changed Europe and the life of its peoples in a positive way too. A person could produce ten times more value in an hour by the year 2000 than a century before. The amount of goods and services, food, clothing, housing, summer vacation and travel, health and educational services available to an average European family in 2000 was five times greater than that available to a similar family in 1900. The monthly consumption spending of an Italian working-class family of four was $180 in the 1890s, but one hundred years later – in comparable dollars – $1,600. Moreover, in the latter period health care and education were free to them. People moved from remote villages to rising cities and changed their lives dramatically (see Figure 0.1). “The transformation of the daily life of ordinary European people . . . is the most revolutionary event, to date,

Figure 0.1 Urbanization, 1913–2013



in the history of the continent" (Feinstein, Temin, and Toniolo, 1997: 5). The death rate decreased drastically and life expectancy at birth, as an average, nearly doubled in twentieth-century Europe – in the advanced part of the continent it was forty-six years in 1900 and seventy-eight years by 2000, while in the poorer parts it increased from thirty-two to sixty-seven years (see Figure 0.2). The population of the continent increased throughout the century (see Figure 0.3). An average person spent three times the number of years in school and became incomparably better educated at the end of the century than at the beginning. Progress of this kind – concurrent with new economic policies – was an everyday experience for twentieth-century Europeans. Best of times, worst of times.

European people of the twentieth century long believed in their role in promoting human development and social progress. This idea had reigned since the Enlightenment as a kind of secular religion. People longed, as the German philosopher Georg W. F. Hegel opined, for the absolute knowledge of Truth, the earthly realization of the "absolute spirit," as Jews longed for the coming of the Messiah. People of the age accepted that history had a goal and was advancing toward higher stages, and they wanted to make this goal identical with their own goals and ideals.

They were convinced that understanding history and the requirements of the age, the knowledge of Truth, created an unshakable base for human actions. People believed they could mould history and influence progress through rationally based actions and interventions. Twentieth-century economic thinking and practice were, in a way, the crowning of this idea of Enlightenment. An unbroken chain of economic experiments based on different kinds of interventions attempted to influence human development.

Figure 0.2 Life expectancy at birth, 1900–2013

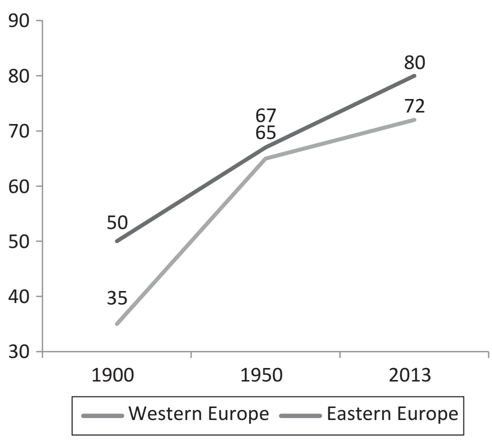
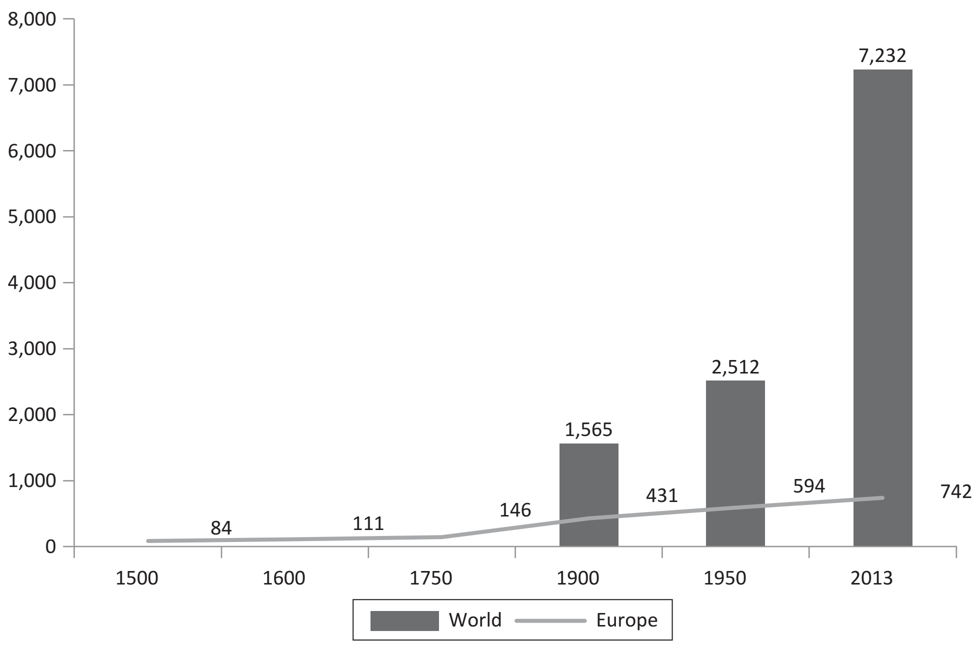


Figure 0.3 Population growth of Europe and the world



History and experience teach us, according to Hegel, that people and governments have never learned anything from history. Twentieth-century Europe, despite early and repeated signs to the contrary, eventually proved this bitter conclusion at least partially wrong. European countries sought lessons from the past and developed policies, rightly or wrongly, accordingly. Cicero's description of history as *testis temporum, magister vitae* – "witness of times, teacher of life" – characterizes the experience of the past century.

These most tragic human and economic catastrophes had surprisingly positive consequences. They mobilized the masses, educated economic and political thinkers, and influenced governments. People learned from their suffering and thought that they understood the requirements of the age: they knew the Truth and were able to act accordingly. Economists worked out counter-cyclical policy measures to avoid bottomless economic decline. From their war experience, they learned new methods to stabilize international financial markets, create jobs, and achieve specific economic goals which in "normal times" had been out of reach. They changed their attitudes toward colonialism, once considered an essential policy. They gave up their colonies, sometimes reluctantly but mostly peacefully, under the pressure of the post-World War II de-colonization drive. The people of twentieth-century Europe became more entrepreneurial, took more risks, and introduced several new economic systems.

Economic growth became the new "golden calf" or the *Zeitgeist* of the age. State planners introduced new regulations and interventions aimed at higher economic growth. Though the ideal of growth through market automatism predominated at the beginning of the century, most of the new experiments were based on market corrections with an explicit social goal. Redistributive systems were created to decrease sharp income differences among different layers of society and among various regions.

Less developed countries tried economic measures to generate higher capital accumulation and investment, and to force rapid economic development. The strict regulations and planning of the war economy taught valuable lessons. Regulated markets became the norm in the interwar decades. Authoritarian regimes, mostly Mediterranean dictatorships, went further with economic dirigisme, establishing state sectors and economic targets to be achieved by state planning and assistance. The less developed European periphery, Russia and Central and Eastern Europe, went even further. Regimes in this region eliminated private property and market prices, and introduced a centrally planned, non-market system, because they believed that backwardness could be eliminated by central state policy. Modernization dictatorships subordinated unions, oppressed all kinds of resistance, and, behind the shield of dictatorial regimes, implemented rapid, forced industrialization to catch up with the advanced West.

All of these regimes were isolationist. They equated independence with self-sufficiency. When prohibitive, protectionist policies failed in a national framework, they were supplemented by dictated economic cooperation. The German Nazi leadership created a *Grossraumwirtschaft*. The Soviet bloc's centrally planned economies established the Council for Mutual Economic Aid (CMEA, or Comecon) under Soviet leadership. For a while, these regimes accelerated economic growth, but eventually these planned economies proved too rigid for the requirements of the new technological revolution and gradually globalizing world economy. Moreover, because they imposed isolation and terror, anachronistic to the age, none of them survived the century.

Several promising elements of these regimes, however, were taken over by the post-World War II West European governments. New international monetary and trade agreements created a different economic environment, and post-World War II economic development avoided dramatic cyclical fluctuations. These regimes used strict regulations and counter-cyclical policy in a mixed welfare-state economy, and preserved or established state-owned sectors in transportation, communication, and industry, often using planning to achieve specific goals.

But most of all they introduced a system of redistribution based on high taxation and built up a strong social safety net made up of free education, health benefits, insurance, maternity leave, guaranteed pensions, and long paid vacations. However, universal welfare services guaranteed as citizen rights did not achieve utopian egalitarian goals; private ownership and income differences were preserved. Social solidarity nonetheless became a leading principle, with a reinterpretation of citizen rights to include the right to employment and social security. These measures, aside from contributing to general welfare, also strengthened domestic markets and increased consumption, which became the engine of prosperity. These regimes also introduced a corporative type of collaboration between employees and employers, which reinstated the unions destroyed by the dictatorial regimes. Furthermore, all of these state interventions were implemented with the market environment basically intact. State-owned companies acted as private ones in a free market. Planning was not based on compulsory state command but used market incentives for the realization of goals. Regulatory state intervention was not combined with protectionism but free trade. Instead of economic confrontation, called economic nationalism between the two wars, European governments of six Western countries entered into the process of economic integration with the explicit goal of an "ever closer union." During the 1950s they established first their Coal and Steel Community and in 1957 founded the European Economic Community by creating a free market zone, a system of cooperation, on an equal and democratic basis. They created a customs and then an economic union.

The introduced economic systems influenced economic growth, structural changes, and regional restructuring. The European economy was transfigured from an industrial–agrarian structure to a communication service-led economy. The continent made progress in narrowing the traditional gap between the advanced Western core and the less developed peripheries with less than half the core's income level. Some of the peripheries caught up with the West. Scandinavia remained outside the main industrialization drive of the West until the late nineteenth century, but gradually industrialized and caught up with the Western income level between the 1870s and 1930s. Mediterranean Europe, Ireland, and Finland achieved a much higher-than-average growth rate and a catching-up process only in the second half of the twentieth century, especially following European Community membership and assistance during the last third of the century. The Central and Eastern European periphery was unable to follow this trend. State socialism led to rapid industrialization but was accompanied by isolation, and the rigid non-market economy reproduced technological backwardness. The gap between East and West grew larger than it had ever been in modern history.

At the end, the Soviet bloc declined into an increasingly severe economic crisis during the 1970s, and the regime collapsed in 1989. The last decades of the century and the transition to the twenty-first century saw dramatic political and regime change as well as breathtaking globalization of the world system in which regulations often proved counterproductive, and social welfare expenditures became a burden in an arena of unlimited international competition. At the end of the twentieth century, people lost the comfortable, long-held belief in their ability to change historical processes. Skepticism has arisen from attempts to change history that have been compromised, violent actions in the name of peace, and the degradation of human ideals. A conservative reaction to that century's ideals totally rejected even the possibility of understanding history and discovering Truth. The laissez-faire ideology re-emerged triumphant.

Human intervention to generate progress and change countries' destinies spanned the entire century. The results were mixed and setbacks in the transformation of Europe were unavoidable. In the interwar decades the future looked bleak. Post-World War II Europe grew euphoric during history's most striking economic development. After the oil crisis and a dramatic structural crisis in the 1970s and 1980s, adjustment to the requirements of the new technological-communication revolution shocked the people of the continent again. Globalization, especially from the final decades of the century, created an unprecedented international economic environment.

This went hand-in-hand with the spread of neo-liberalism and neo-conservatism. The over-financialized economy became deregulated and a high-risk, casino-type economy emerged. Globalized competition led to the challenge of several achievements of the postwar European economy and its social policy, including the mixed economy, state intervention, and the heavy "social burden" of the welfare state. Inequality, which had been moderated after the war by state interventions and welfare policies, started to increase again. Welfare states were reformed and in several countries severely weakened, but their institutions survived. All the major features of the postwar economic regime were called into question, which foreshadowed the return of laissez-faire capitalism. After roughly a third of a century, however, the economic boom and real estate bubble have burst and the 2007–8 economic crisis, the greatest since the Great Depression, shocked the advanced world, especially Europe.

The engine of economic development, which previously moved national economies with the assistance of nation states, shifted. Multinational companies led technological development and established a different kind of division of labor among their subsidiaries all over the world. The unprecedented increase in direct foreign investment, bank loans, and financial transactions of a globalized cutthroat free market facilitated technological explosion and dramatic restructuring of the economy.

The integration process, however, gained a new, major incentive and has expanded the size and power of the European Union. Both the modernized division of labor within the Union and the rise of European multinational companies as equal competitors in the world market have repositioned Europe to meet the demands of the twenty-first century. The stagnant integration process gained new initiative and significantly deepened, thanks to the creation of a single market, which eliminated borders and enabled the free flow of goods, capital, and people. These steps, which began in 1985, made the European Union more supranational and more closely connected the economies of the member countries. The Europeanization of the continent's economy created a pan-European banking system and bound manufacturing together by huge networks of subsidiaries and value chains. European countries invested in and traded with one another. At the turn of the millennium, this process was crowned by the introduction of the common currency.

Together with a much higher level of integration, the European Union dramatically enlarged as well. This process started in the early 1970s, but gained real impetus during the 1980s when three Mediterranean countries became members. The Union grew again in the early 2000s, when, after the collapse of the Soviet Bloc, eleven former communist countries also became members of the EU. By 2013, the Union had twenty-eight members, many of them also members of the eurozone. As a consequence, Europe became an economic superpower, a major force in the world economy.

This book looks at the story of Europe as the laboratory of economic regimes, presenting its "development trend," which is to say, both the failures and the successes in responding to the challenges of a crisis- and tragedy-ridden but highly successful age. This book has a central hypothesis: the leading trend of the twentieth century was the gradual synthesis of diametrically opposing and sharply confronting economic systems. The invented and newly introduced regimes were like day and night – free market system versus centrally planned regime, democratic market economy versus dictatorial economic dirigisme. These opposing regimes that fought each other at the end of the day also learned from one another. Thus, they experienced a kind of synthesis, combining elements of laissez-faire and of regulation, of private and public ownership, and of planned and interventionist systems. Furthermore, though invisible at first glance, the analysis reveals that the vast disparity among European regions, inherited from the entire period of early modern and modern history, gradually began to disappear and although disparity increased in some cases, especially after the 2008 financial-economic crisis, the continent's countries, historically speaking, are developing a more balanced economic level.

The process itself was highly controversial. Like counterpoints in music that combine individual melodies, economic transformation was characterized both by broadening and narrowing diversity, diverging and merging economic regimes. Some regimes were "antidotes" or "counterpoints" to others. Some regions exhibited the opposite development trend from others. Several elements of certain economic regimes terminally failed and disappeared. A kind of Hegelian dialectical synthesis, however, in the longer run is probably in the making.

Nevertheless, an economic synthesis is far from complete. Will it ever be completed in a more or less homogeneous federal Europe? Will new economic regimes emerge? Will Europe experience another revolt against globalization? Only the coming decades of the twenty-first century will provide the answers to these questions.

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Excerpt
More Information

1 Europe's laissez-faire system and its impact before World War I

The rise of Britain and the laissez-faire system

The "long" nineteenth century, from the 1770s–80s to 1914, was the most spectacular period of economic change in Europe. The British Industrial Revolution opened a new chapter of economic history. By the middle of the eighteenth century Britain had achieved the prerequisites for sustained economic growth. More than 1,000 miles of navigable canals and waterways, 300 Newcomen steam engines, a revolutionized agriculture, and dynamic proto-industrial development made Britain the center of world trade. Domestic markets played a dominant role during this period (Flinn, 1966: 62); only 5–9 percent of British output was exported during the eighteenth century. However, higher profits in foreign markets increased the role of exports to 10–12 percent (Bairoch, 1976: 196). Export activity, nevertheless, became the driving force of industry: during the first half of the eighteenth century the output of export industries increased by 76 percent, while output in other industries grew only 7 percent. The value of British exports doubled between 1700 and 1750, and then more than tripled by 1800. The leading textile industry by then exported half its output. Eric Hobsbawm concludes that the origins of British industrialization were rooted in foreign trade, especially with less developed areas such as India and other colonies (Hobsbawm, 1968: 49).

In the early eighteenth century, Britain defended its domestic market in a traditional mercantilist way. For example, the so-called Calico Law banned the imports of Indian cotton goods. Exports flourished, especially in the leading textile sector. The value of British exports increased thirty-fold during the long nineteenth century to 40 percent of the national income (Schlote, 1952: 53). The rate of export growth also increased, from 2 percent to 4 percent, and then to 6 percent during the 1860s to 1870s. Already by 1820 the value of British merchandise exports surpassed the value of merchandise exports of France, Switzerland, Austria, the Low Countries, and Italy combined. By 1870, British exports reached 40 percent of total Western European exports, and by World War I still accounted for more than one-third (Maddison, 2001: 361). British industrial development also intensified. During the first four decades of the nineteenth century industrial output grew at rates of 23 percent, 39 percent, 47 percent, and 37 percent. Britain gradually gave up agricultural self-sufficiency.

Free trade became a prerequisite for the country's further economic expansion. No other country had such a vested interest in eliminating trade obstacles. Following early attempts in the eighteenth century such as the Methuen Agreement with Portugal (1703) and the Eden Treaty with France (1786), Britain from the 1840s steadily advanced toward free trade. Sir Robert Peel produced a balanced budget without huge tariff incomes in 1842. Freed from reliance on tariffs to finance the state budget, he was able to reduce import duties for 750 articles and export duties on British manufactured products. Peel made further radical tariff reductions in 1845. The severe Irish famines in these years led to the elimination of the Corn Laws (1846 and 1849), which defended domestic agricultural markets and had reflected agricultural interests. The repeal of the Navigation Law (1849) ended restrictions on mooring foreign ships in British ports. However, it took another quarter of a century and a series of balanced budgets by Gladstone in the 1860s before tariffs were lifted and free trade policy was institutionalized in Britain.

The Cobden–Chevalier Treaty between Britain and France (1860) was the first milestone in establishing a laissez-faire system throughout Europe. The most-favored-nation clause of this treaty became the vehicle for the internationalization of free trade through the mechanism of automatically invoking tariff reductions subsequently negotiated with any third party. Indeed, through a series of agreements with Germany, Italy, Belgium, Sweden, Norway, Spain, Holland, Austria, and Portugal, Europe effectively became a free trade zone during the last decades of the nineteenth century.

This was facilitated by the development of a multilateral payment network. Although the bulk of trade transactions remained bilateral until World War I, at least 20–25 percent became multilateral. This encouraged international trade because countries could offset a trade deficit with one partner by a trade surplus with another so that less gold and hard currency was needed for balanced trade. This reduced a major obstacle to international trade – the lack of sufficient gold and hard currency reserves. The crowning move toward a laissez-faire system was made with the introduction of the gold standard. Until the 1870s, most European countries had a bimetallic (silver and gold) system (France), a silver standard (Holland, Scandinavia, the German states), or inconvertible paper money (Russia, Greece, Italy). Most currencies thus were not convertible, a major obstacle for the expansion of foreign trade. The pioneer of the gold standard was again Britain, which made important progress in this direction at the end of the eighteenth century, and fully introduced the gold standard in 1821. Other European countries followed much later. In 1867 the European Monetary Congress in Paris advocated the introduction of the gold standard. In that year, Holland went on the gold