An Economic History of Twentieth-Century Europe

This new edition of Ivan Berend’s leading overview of economic regimes and economic performance from the start of the twentieth century to the present is fully updated to incorporate recent events, including the causes and impacts of the 2008 financial-economic crisis. Praised for its clear prose and uncluttered analytical style as well as its use of illustrative case studies, this is an integrated, comparative account of European economic development from the evolution of capitalism to the fascist and communist regimes and their collapse, and Europe’s current economic problems. The book examines both successes and failures in responding to the challenges of this crisis-ridden but highly successful age. It introduces the main factors behind economic growth and the various economic regimes that were invented and trialed. It shows how the vast disparity which had existed between the European regions started gradually decreasing as a result of increased integration.

IVAN T. BEREND is a Distinguished Professor in the Department of History at University of California, Los Angeles. He is the author of more than 30 books, including An Economic History of Nineteenth-Century Europe: Diversity and Industrialization (Cambridge University Press, 2012).
To my beloved grandchildren,
Benjamin, Daniel, Esther, and Rebecca
# Contents

List of boxes page x
List of figures xi
List of tables xiii
Foreword and acknowledgments xv

## Introduction 1

1 *Europe’s laissez-faire system and its impact before World War I* 9
   The rise of Britain and the laissez-faire system 9
   Rising modern sectors 15
   Europe’s position in the globalizing world economy 19
   Rising disparity within Europe 24
   The beginning of Scandinavia’s catching-up 29
   The Southern and Eastern peripheries remaining behind 31
   The challenge of globalized laissez-faire 38

2 *Decline of laissez-faire and the rise of the regulated market system* 43
   The turning point: war economy, 1914–18, postwar chaos, and the agony of laissez-faire 45
   Failed attempts to return to “normalcy” 53
   The death of laissez-faire, and extreme state regulations during the Great Depression 58
   The theory of the regulated market 68
   War economy, 1939–45 71
   The impact of the regulated market economy: European economic performance 76
   Europe’s deteriorating role in the world 86

3 *Economic dirigisme in authoritarian–fascist regimes* 88
   The origins and characteristics of economic dirigisme 91
   Functions and programs of the state 98
   Self-sufficiency, planning, and the populist welfare system 104
## Contents

Dictated regional economic integration 118
Economic results 123

4 The centrally planned economic system 126
Marxist theoretical legacy, Lenin and the Bolshevik program 126
Forced industrialization and central planning: "socialism in one country" 135
From an isolated Soviet system to the Soviet bloc 142
The characteristics of the centrally planned economic system 149
Safeguarding and attempts to legitimize the regime 156
Regional integration system of planned economies 157
The goal and balance sheet of the centrally planned economy 160
Rapid growth and industrialization – reproduced backwardness 163
Reform attempts that failed 169
Crisis and collapse 173

5 Managed social-market system in an integrating post-World War II Western Europe 180
The emergence of Sozialpartnerschaft and the mixed economy 181
Planning in mixed economies 190
The rise of the welfare state 193
Educational revolution 204
Postwar international regulations 207
Economic integration and the rise of the European Union 210
Economic growth and structural changes 222

6 Globalization: return to laissez-faire? 246
Globalization and its impact on Europe 246
Trade and foreign capital investments, dominated by multinational companies 247
Globalization and the globalized laissez-faire ideology and system 250
The impact of globalization on Europe 254
The crisis of the 1970s and early 1980s 255
The challenge of mixed economy and welfare state 260
Globalization and inequality 265
Europe's answer to technological revolution and globalization 271
Europe's answer to globalization: the single market, common currency, and Europeanization of the financial and manufacturing industries 285
Building a "backyard" with cheap labor: endless enlargement of the Union 292
Assisting the "backward regions" of the Community 293
## Contents

Rising global environmental considerations and regulations 300
Speculative "bubbles" and the severe economic crisis of 2008 307
Europe: an economic superpower 316

Bibliography 323
Index 346
<table>
<thead>
<tr>
<th>Boxes</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 The Brown Boveri Company</td>
<td>16</td>
</tr>
<tr>
<td>1.2 The Paris Métro</td>
<td>18</td>
</tr>
<tr>
<td>1.3 Aspirin</td>
<td>29</td>
</tr>
<tr>
<td>1.4 Tungsram</td>
<td>36</td>
</tr>
<tr>
<td>1.5 The Agnellis</td>
<td>37</td>
</tr>
<tr>
<td>2.1 John Maynard Keynes</td>
<td>44</td>
</tr>
<tr>
<td>2.2 KLM</td>
<td>82</td>
</tr>
<tr>
<td>3.1 The autobahn</td>
<td>99</td>
</tr>
<tr>
<td>3.2 Hjalmar Schacht</td>
<td>108</td>
</tr>
<tr>
<td>3.3 Volkswagen</td>
<td>113</td>
</tr>
<tr>
<td>3.4 Radar and the ballistic rocket</td>
<td>115</td>
</tr>
<tr>
<td>4.1 Dnieprostroi</td>
<td>139</td>
</tr>
<tr>
<td>4.2 The Danube–Black Sea Canal</td>
<td>147</td>
</tr>
<tr>
<td>5.1 Jean Monnet</td>
<td>198</td>
</tr>
<tr>
<td>5.2 The Channel Tunnel</td>
<td>220</td>
</tr>
<tr>
<td>5.3 Sir William Beveridge</td>
<td>221</td>
</tr>
<tr>
<td>5.4 Marks and Spencer</td>
<td>232</td>
</tr>
<tr>
<td>6.1 The World Wide Web</td>
<td>295</td>
</tr>
<tr>
<td>6.2 Nokia</td>
<td>297</td>
</tr>
<tr>
<td>6.3 Benetton</td>
<td>299</td>
</tr>
</tbody>
</table>
Figures

0.1 Urbanization, 1913–2013 page 2
0.2 Life expectancy at birth, 1900–2013 3
0.3 Population growth of Europe and the world 4
1.1 Disparity in economic growth, 1897–1913 35
2.1 Soviet industrialization and war preparations in the 1930s 73
2.2 Economic growth, 1900–50 77
2.3 Restructuring of British industry, 1912–38 78
2.4 Restructuring of French industry, 1929–38 79
2.5 Regional disparities, 1900–50 84
3.1 Changes in sectoral employment, Italy and Spain, 1950–73 124
4.1 Industrial output in the peripheries 143
4.2 Decline of agricultural population: Central and Eastern Europe 161
4.3 Labor productivity in the peripheries, 1950–92 167
4.4 Per capita income in the Soviet Union 178
5.1 Nuclear energy as percentage of energy used in 1998 224
5.2 Labor productivity in Southern and Eastern Europe, 1950s–90s 229
5.3 Spending on food and clothing: Switzerland, 1912–2000 230
5.4 Spending on basics (food, clothing, etc.); fifteen best-developed EU countries 231
5.5 Spread of telephone lines, TV and radio licenses in Europe 235
5.6 Telephone lines per 100 inhabitants, 1979 236
5.7 Number of cars in ten best-developed EU countries 237
5.8 Europe’s catching-up (GDP per capita), 1950–73 241
6.1 Foreign direct investment, 1973–2000 249
6.2 German investments abroad, 1961 and 1990 250
6.3 Internet hosts per 1,000 inhabitants, 2012 273
6.4 De-industrialization of Western Europe, 1960s–2012 274
6.5 Service revolution: services in the European Union (fifteen countries) as percentage of total value added 276
6.6 Europe’s exports, 1950–2014 277
6.7 Percentage share of the world market 278
List of figures

6.8 Ireland’s per capita income level, 1973–2012 283
6.9 Employment in the USA and eurozone, 2008–2013 313
6.10 Population and GDP in the USA and EU, 2012 318
6.11 Labor productivity in the USA, EU, and Japan, 1950–2014 319
Tables

1.1 The world’s GDP growth by continents page 20
1.2 The world’s per capita GDP growth by continents 21
1.3 The share of the continents in world’s total GDP 21
1.4 The slowing down of old leaders, and the rise of new Western economic powers 31
1.5 Income disparity within European regions in GDP per capita 35
1.6 GDP per capita disparities between European core and peripheries 38
2.1 Decline of GDP (percentage) in belligerent countries, 1913–19 50
2.2 Tariffs as percentage of value of imported goods, 1927–31 compared 62
2.3 GDP and GDP per capita in Europe and the world, 1900–50 77
2.4 Output of electric energy of twenty-three European countries 80
2.5 The spread of telephone and radio in twenty-one European countries 80
2.6 Number of motor vehicles in Europe 80
2.7 Labor productivity in Western Europe and Scandinavia 83
2.8 GDP per capita in three European regions, 1913 and 1950 84
2.9 Regional income disparities within Europe, 1900–50 85
2.10 Number of cars and telephone lines per 1,000 inhabitants 86
3.1 German share in foreign trade 120
3.2 GDP per capita in Southern Europe in 1990 ppp dollars and percentage 123
4.1 Catching-up process of the Soviet Union, 1900–50 142
4.2 Labor productivity 167
4.3 Per capita GDP 1989–98 in million 1990 international dollars 178
4.4 GDP growth rate per capita 178
4.5 Per capita GDP as percentage of the European Union 179
5.1 Public expenditures as percentage of gross social product 194
5.2 Radio and TV licenses in Western Europe 234
5.3 Volume of exports, 1913 = 100 percent 239
6.1 Foreign direct investments, USA, China, and Europe, in $ million, 2012 249
6.2 Rate of growth in constant prices and unemployment 257
6.3 From peak to trough: fluctuation in foreign trade between 1973 and 1983 – maximum percentage peak to trough fall or smallest rise per annum 257
6.4 Life expectancy at birth in various regions 261
<table>
<thead>
<tr>
<th>Table</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.5</td>
<td>Income inequality (Gini index)</td>
<td>270</td>
</tr>
<tr>
<td>6.6</td>
<td>Service revolution: value added in services as a percentage of total value added</td>
<td>274</td>
</tr>
<tr>
<td>6.7</td>
<td>Average annual percentage change in private consumption</td>
<td>277</td>
</tr>
<tr>
<td>6.8</td>
<td>Merchandise exports as percentage of GDP in 1990 prices</td>
<td>279</td>
</tr>
<tr>
<td>6.9</td>
<td>Labor productivity, GDP per hour at international 1990 $</td>
<td>279</td>
</tr>
<tr>
<td>6.10</td>
<td>Leaders in catching up (GDP per capita 1973–2012)</td>
<td>285</td>
</tr>
<tr>
<td>6.11</td>
<td>Mediterranean and Northern countries: GDP per capita</td>
<td>285</td>
</tr>
<tr>
<td>6.12</td>
<td>Sectoral employment</td>
<td>295</td>
</tr>
<tr>
<td>6.13</td>
<td>Countries of severe unemployment in 2012</td>
<td>313</td>
</tr>
<tr>
<td>6.14</td>
<td>Regional disparity, GDP per capita, regions as percentage of the West, 1950–2012</td>
<td>317</td>
</tr>
<tr>
<td>6.15</td>
<td>GDP per capita in the world, the USA, and EU, 2003–12</td>
<td>319</td>
</tr>
<tr>
<td>6.16</td>
<td>GDP in US $ in the world, the USA, and EU, 2003–12</td>
<td>319</td>
</tr>
<tr>
<td>6.17</td>
<td>GDP per capita ($1990 GK), 1950–2005</td>
<td>320</td>
</tr>
<tr>
<td>6.18</td>
<td>GDP per capita in European regions compared</td>
<td>320</td>
</tr>
<tr>
<td>6.20</td>
<td>Stock of foreign direct investments at the turn of the millennium</td>
<td>322</td>
</tr>
</tbody>
</table>
Foreword and acknowledgments

History does not abide by the strict schedule of the calendar. The economic history of twentieth-century Europe begins somewhat earlier than the century itself and certainly does not end by the close of the last calendar year. In the time span from the late nineteenth century to the early twenty-first century – thus about one-third longer than the calendar twentieth century – the history of the European economy was consistent. It was during this time that laissez-faire capitalism was born, challenged and almost defeated by alternative economic regimes, adjusted, and was eventually reborn. This book covers the long twentieth century of economic history in Europe.

This book plays a special role in my long professional career and maintains a distinctive place among the great number of books I have written and published. Its first edition, published in 2006, was translated into more than a dozen languages and was published across Asia and Europe.

Writing an economic history of an entire continent over the course of longer than a century is probably an over-ambitious enterprise. Several inspirations, however, have prompted me to write one. Starting with my very personal historical experience, I lived through and survived more than eight decades of the period I am going to discuss, and closely watched the latter two-thirds of it. I had personal experiences with economic nationalism in the authoritarian state and its war economy in Hungary. Soon after the war, a Soviet-style command economy was introduced. I actively participated both in attempts to reform it, and, in the 1980s, also in the economic regime change. I closely followed the transformation of the centrally planned economy into a private-market system. At last, in the past quarter of a century, I have lived in the globalized, free market economic regime in the United States. I feel fortunate for this unique, motivating experience.

My long career and numerous publications as an economic historian of nineteenth- and twentieth-century Europe also provided personal inspiration to author a new approach to the various economic regimes of the twentieth century. Some of my good friends and colleagues published broad economic histories: David Landes’s classic *The Unbound Prometheus* and Sidney Pollard’s *Peaceful Conquest* on the industrialization of Europe covered roughly two centuries between 1760 and 1970. Derek Aldcroft pioneered his *The European Economy, 1914–1970*, and then...
expanded it to the end of the century in 2001. Stephen Broadberry and Kevin O'Rourke edited the two-volume *Cambridge Economic History of Modern Europe*, covering the period from 1700 to the present in 2010. Several excellent works covered the interwar period among others, the thin but essential *The European Economy Between the Wars* by Charles Feinstein, Peter Temin, and Gianni Toniolo. Even more works were published on the unique prosperity after World War II and its sudden end in the 1970s; Barry Eichengreen’s important studies, the edited volumes of Nicholas Crafts and Gianni Toniolo, and Andrea Boltho deserve special attention among them. Herman Van der Wee published a world economic history on the post-World War II prosperous third of a century. My most inspiring late friend, Eric Hobsbawm, produced a gigantic opus on the complex world history of the entire twentieth century.

I cannot cease this fragmentary list without mentioning Angus Maddison’s excellent historical statistics, which offer a unique source for comparative figures. These works and experiences encouraged me to make my own contribution. They also enabled me to bypass several aspects of the twentieth-century economic history of Europe. In this volume, I will not discuss the various factors of economic growth and the major cyclical pulsation of the economy they vividly discussed and analyzed. I will concentrate on a much less discussed aspect of the century’s political economy: the rise and fall of various economic regimes, their interrelations, and impacts. It may also help in understanding the political economy of the process of economic homogenization, which gained momentum in the second half of the century. The European peripheries in the South and East of the continent remained much less industrialized and developed than the advanced core countries in the West until the mid-twentieth century. Tremendous attempts were made and new economic models and policies introduced to catch up with the West. These efforts failed for a long time but, at least in certain peripheral areas, gained momentum during the second half of the century. The failure and the progress of convergence and catching-up with the more advanced regions is an important aspect of the analysis.

I am very grateful to all of my friends and colleagues who provided encouragement and made it possible for me to find a new focus to investigate the century. I include in this list the anonymous reviewers of Cambridge University Press who gave valuable advice to enlarge and finalize the manuscript of this second edition.

As always in my life, research and writing are closely connected with teaching. The courses I have taught over the past twenty-five years at the University of California Los Angeles on the economic history of nineteenth- and twentieth-century Europe, and on the European Union, helped me in working on and thinking about this project for years. I am very grateful to my colleagues and thousands of my students over those years, who created an inspiring intellectual environment for my work. UCLA’s Young Research Library, with its unique
collections and superb services, offered the best possible resources. The grants from UCLA’s Academic Senate helped me manage the immense statistical work. I am especially grateful to David Summers for his excellent work in copyediting my manuscript, and for the most professional staff of Cambridge University Press who took special care preparing the publication. I am grateful for Michael Watson, executive publisher of History and Area Studies at Cambridge University Press, with whom I have worked for two decades, and who initiated this expanded second edition, based on the first edition’s continued success. Last but not least, I want to mention my wife, Kati, for her invaluable contributions, from library research and chart composition to critical reading and commenting on several versions of the manuscript. I accomplished this book with her collaboration.

Ivan T. Berend