

The European Economy since 1945: Coordinated Capitalism and Beyond. *By Barry Eichengreen*. Princeton: Princeton University Press, 2007. xx + 495 pp. Index, notes, bibliography, appendix, figures, tables. Cloth, \$35.00. ISBN: 0-691-12710-7.

Reviewed by Michael S. Smith

From the title, readers might expect this book to provide a comprehensive account of European economic development in the second half of the twentieth century, but it turns out to have a more limited, yet no less ambitious, goal: to account for the rapid growth of the European economy in the twenty-five years following World War II and for its slowdown, even stagnation, since 1970. The book elaborates on ideas Barry Eichengreen first presented in chapters that appeared in two earlier books, *Economic Growth in Europe since 1945*, edited by Nicholas Crafts and Gianni Toniolo (1996), and *Europe since 1945* (2001), edited by Mary Fulbrook. Reading those chapters first will help readers to understand the arguments presented here.

In Eichengreen's view, the key to economic growth in Europe since World War II has been productive investment. Between 1945 and 1970, European economies grew rapidly, pouring available resources into the mass production of standardized goods using existing technologies, a process he calls "extensive growth." In Soviet-dominated Eastern Europe, this could be done by fiat: the state simply placed arbitrary limits on private consumption in order to divert money into heavy industry. In the freer economies of Western Europe, however, extensive growth depended on a series of corporatist bargains—the "coordinated capitalism" of the subtitle—whereby governments provided a social safety net to workers and various supports to employers, and in return workers and employers agreed to forego immediate rewards in wages or profits so that income could be reinvested in expanded production.

By the end of the 1960s, extensive growth, accomplished by increasing production of existing goods with existing technologies, had either run its course or fallen prey to the law of diminishing returns. From 1970 on, according to Eichengreen, economic growth in Europe and throughout the developed world would depend on

creating new products and technologies through systematic investment in research, a process he calls “intensive growth.” The closed command economies of Eastern Europe were incapable of making the necessary adjustments to move from extensive to intensive growth, a failure that led to their precipitous decline during the 1980s and to the collapse of the Soviet system in 1989. The countries of Western Europe did not face collapse, or even economic decline in absolute terms, but they did increasingly fall behind the United States and Japan because their system of coordinated capitalism, which was good at generating incremental improvements in existing technologies, could not generate the radical innovations necessary to sustain intensive economic growth in the 1980s and 1990s. Thus, by the outset of the twenty-first century, it appeared to many that the “European model” of economic development had become obsolete and was destined soon to be replaced by the “Anglo-Saxon model.”

In describing Europe’s transition from the era of extensive growth to the era of intensive growth, Eichengreen explores a number of related themes and subplots. In accounting for the success of Western Europe in the postwar decades, he credits not only the corporatist bargain among politicians, capitalists, and workers but also the official commitment to intraregional trade that allowed industries in each country to grow beyond the limits of their domestic markets. He thus devotes considerable space to the founding and evolution of the European Economic Community (EEC), which he calls “one of the most extraordinary political and economic transformations the world had ever seen” (p. 163). Because intra-European trade required stable currencies—or at least stable exchange rates—Eichengreen also devotes much space to the technicalities of monetary policy and the emergence of the Euro-based European monetary union, although he stops short of pronouncing monetary policy the determining factor in European economic history, as he did in his earlier book on the interwar period, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (1992).

Eichengreen pays so much attention to trade and monetary policy that he gives short shrift to other important aspects of European economic development. One of these is technology, which is surprising given the stress he places on the role of technology transfer and innovation in his concept of economic growth. There is also little on the development of specific industries, such as steel, chemicals, and petroleum, and almost

nothing about agriculture, even though Eichengreen considers agricultural policy to be crucial to the creation and functioning of the European Economic Community. In general, he sacrifices sectoral analysis to macroeconomic comparisons of the national economies of Europe. Although Eichengreen emphasizes the role of trade and cross-border investment, it is almost always intra-European trade and investment. He has little to say about Europe's trade with the rest of the world, and nothing about the surge of European investment in the United States since the 1970s. Finally, he does not go into the roles of specific companies and businessmen. When human agency comes into play, as it often does, it is usually in the form of politicians or technocrats (such as Jean Monnet, Margaret Thatcher, Helmut Kohl, or Jacques Delors).

Yet, omissions notwithstanding, this book is a remarkable achievement. Eichengreen skillfully integrates the diverse economic histories of some two dozen countries and marshals a wealth of statistical data to provide cogent answers to some of the central questions about the development of the European economy since 1945. Along the way, he offers valuable commentaries on the relevant scholarly literature and sorts out the competing points of view in a number of scholarly debates (notably, the debate between the so-called MIT and Minnesota schools of thought on why Europeans have ended up working fewer hours than Americans since the 1970s). In the final chapters, he bravely speculates on the future of the European economy in an age of continuous technological change and globalization. Perhaps most critically, he gives us the mature version of his two-stage model of European economic development since 1945—the “Eichengreen Model”—that will likely remain a reference point for all efforts to write the history of this complex and tumultuous period for years to come. For all these reasons, this book should be required reading for advanced students of twentieth-century European history.

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