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History

Enriched by united progress

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Huw Dixon
The European Economy since 1945

This book tells the epic story of the growth of Europe from a collection of disparate and largely war-ravaged nations into a peaceful and prosperous European Union that stretches from the Atlantic Ocean to within 200km of St Petersburg and will soon include Black Sea resorts that were once part of the Ottoman Empire.

The problem of this history is that it is defined by its endpoint - the current EU, including former Soviet satellites such as Poland and Hungary.

The variety of initial positions and trajectories poses a narrative problem: how do you write a unified account of such disparate elements? The main focus is on the large economies: Germany, France, Italy and the UK.

The division of the half century into periods is defined by the broadly common experience of these economies; we have the age of rapid economic growth and low unemployment in the 1950s and 1960s, the period of declining growth and inflation in the 1970s and so on. There is a parallel history of central planning, which takes up two of the 13 chapters. Other chapters focus on political and economic integration, including pan-European initiatives such as the European monetary system and the euro. Overall, Barry Eichengreen does an excellent job in organising the narrative.

It is illuminating to see how far we have come. The process of Europe's coming-together was slow: each country had its own economic and political problems, and there were many hold-ups: Charles de Gaulle's magisterial "non" delayed Britain's entry by a decade; Spain and Portugal needed to move from dictatorships to democracy; Scandinavians needed to see themselves as Europeans; communism needed to collapse. One can see the bad side of things such as the Common Agricultural Policy, but despite some tortuous decision-making processes there have been real achievements in terms of competition policy, the single market and the euro. It is hard to imagine what Europe would have been like without the union, but in general it would have been poorer, economically and culturally. Of those countries given the chance to join, only Norway and Switzerland chose to stay out.

Throughout the book, Eichengreen compares the European economies to the US.

Have we caught up or not? A key issue is whether one compares productivity on a per capita basis or per hour. If the former, because labour force participation is higher in the US and people work longer hours, the EU has remained stuck at about 30 per cent below the US. But on an hourly basis productivity is higher in France and is about 90 per cent of the US rate in Germany, Italy and the UK. So is there a preference for leisure in Europe as opposed to the US? Eichengreen is sceptical of the view that it is all down to higher payroll taxes. Many European electorates vote for higher taxes and are happy with high expenditure on the welfare state. There is little micro-evidence for people working harder for higher wages. Many Americans distrust government and would be very unwilling to see an expansion to a European welfare state system.

Eichengreen takes us through the various phases and associated debates as the EU evolved, more or less to the present. This is a risky thing to do.

Indeed, in the final chapter he even indulges in some crystal-ball gazing: how will the European model fare in the coming years amid rapid globalisation and competition from China and India? He believes that fiscal discipline is too weak in Europe; France and Germany need to deregulate their labour markets; and the ageing of the population must be addressed.

He argues that the current nature of technological change (as typified by the IT sector in the 1990s) favours the US model of low taxes and deregulation.

This is very interesting, and Eichengreen, even as he presents a lot of evidence, proves himself to be a master of exposition of the big story. And none could be bigger than the one contained in this book. History will judge it one of the most amazing achievements of the 20th century.

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