

A. Alves Carrara, *Receitas e despesas da Real Fazenda no Brasil, século XVII*, Juiz de Fora, Editora Universidade Federal Juiz de Fora, 2010, pp. 209; *Receitas e despesas da Real Fazenda no Brasil, século XVIII: Minas Gerais, Bahia, Pernambuco*, Juiz de Fora, Editora Universidade Federal Juiz de Fora, 2010, pp. 284.

THIS PUBLICATION IS A CRITICAL GUIDE to the sources useful for the study of Portuguese Brazil's taxation system in the seventeenth and eighteenth centuries. The book forms part of the historiographical series of studies on economics and taxation in Spanish Latin America. The need for a critical examination of the documentation regarding taxation in the Old Regime has been pointed out on several occasions, especially in studies on the Spanish colonies in South America. For example, the books by Herbert Klein and John TePaske on Nueva España have made a critical appraisal of the reliability of the sources¹. In various pieces of research on Mexico and Peru, these two scholars have shown that the public authority's bad management was marked by tax evasion, corruption and smuggling. Likewise, Angelo Alves Carrara shows that the same evils were widespread in the Portuguese colony too. Alves Carrara's work belongs to this current of research, and he warns the reader of the potential inaccuracy, or, at the very least, the incompleteness of the accounting sources the Brazil colonial administration produces. However, paraphrasing Klein-TePaske, "generally speaking" colonial administration accounts "exactly mirror the general trend".

This work, in two volumes, has two aims: to provide the researcher with an annotated collection of available sources and to list the publications on Brazilian taxation.

The archive sources quoted in the book are almost all unpublished and, for the most part, come from the Provedoria-Mor da Real Fazenda, as well as from a substantial collection held at the Arquivo Histórico Ultramarino in Lisbon, in the Biblioteca Nacional in Rio de Janeiro and in various other archives in Bahia, Pernambuco, Piauí and in São Paulo.

For the seventeenth century, the available sources are to be found only in Bahia, Rio de Janeiro and, to a lesser extent, in Pernambuco. Despite the fact that the data concerning the tax burden on the other *capitanias* are almost

1. H. Klein - J. J. TePaske, *Ingresos y egresos de la Real Hacienda de Nueva España*, (Mexico, Instituto Nacional de Antropología e Historia, 1986-1988).

totally non-existent, this does not appear to have any effect worth mentioning because the *capitanias*, as Alves Carrara reminds the reader, represented a marginal amount of the Estado do Brasil's fiscal revenue.

For the whole of the seventeenth century, the Brazilian region in which the Provedoria-Mor da Real Fazenda collected most tax revenue was the *capitania* of Bahia. The revenue from certain taxes, such as those on salt, whale-fishing and timber (the *pau Brasil*), was sent directly to Lisbon and was an important cash boost for the Portuguese Crown's coffers. However, Brazil was subjected to other special taxation too. The most important were the taxes for Catherine of Braganza's dowry when she married the King of England (1662) and those needed to fulfil the peace agreements with the Low Countries (1661). Every *capitania* in the country was subjected to these taxes, and the administrations of Salvador, Recife and Rio de Janeiro were so to an even greater extent.

In 1621 the Estado was made up of two independent administrative units: the Estado do Maranhão (the capital was São Luis, and the region was subdivided into the *capitanias* of Maranhão, Pará and Cereá) and the Estado do Brasil (with its capital Salvador). All the other *capitanias* were concentrated along the coastal strip and in 1680 the *capitania* of São Vicente was added, which pushed Portuguese rule towards Uruguay.

How was the money that Lisbon took from its American colony spent? The revenue from ordinary taxation was spent mainly on wages for the military, the administration and the Portuguese Church.

In 1607, some 60% of Portugal's wealth was produced by the colonies, but only 4% came from Brazil. Ten years later, between 1620 and 1640, in Portugal military expenditure in support of the Spanish Crown increased – it must not be forgotten that between 1580 and 1640 Spain and Portugal were both ruled by the Hapsburgs of Madrid – whereas revenue from overseas trade declined hugely. The years between 1630 and 1650 were, therefore, one of the most delicate periods in Brazil's history. In fact, the Dutch invaded the *capitanias* in the north of the country: Pernambuco, Rio Grande do Norte, Itamaracá and Paraíba. In order to oppose Northern Europe's emergent power, Portugal had to defend its own territories, bearing costs that exceeded 50% of the total taxes collected in Brazil.

The second volume is divided into sections. In the first section the taxation of the *capitania* of Minas Gerais is analyzed, while the second section deals with tax administration in the other two important areas: Bahia and Pernam-

buco. The absence of Rio de Janeiro is surprising, but Alves Carrara informs us that there is an almost total lack of data concerning this region, hence it is practically impossible to draw up a consistent historical series.

In the eighteenth century, the Brazilian tax-levying scheme changed radically. The beginning of mining (gold and diamonds) in Minas Gerais prompted Portugal to exploit to the full its colony's wealth. The picture of the Brazilian economy that Alves Carrara presents is vastly different from that of the previous century. First of all, the country's domestic economy suffered continuous counterblows; in fact, in the eighteenth century, the Brazilian economy saw the commercial centre of gravity shift from the Bahia-Recife region to Rio de Janeiro, the port which served the mining area. It is interesting to note that it was, in fact, Rio that paid out to Lisbon about half the taxes collected in Brazil, with peaks that reached 85% in the period between 1736 and 1756.

Here, again, in this second volume the main aim of the research has been to compile the most complete and uniform historical series possible. The sources occupy almost half the book (pp. 120-280) and cover a period of more than a century (1700-1808). However, Alves Carrara informs us that, in strictly fiscal terms, the Old Regime in Brazil should not be considered over until 1835.

It appears that in Brazil, the eighteenth century was also characterized by persistent fiscal disparity. Moreover, Brazil's administrative and bureaucratic machinery must be studied in the broader and more complex context of the Portuguese Empire; this was an immense economic area made up of many different areas and markets which, at least according to the mother country's polity, combined to form the *antigo sistema colonial*.

These volumes are a piece of economic history research that is not merely the arid processing of quantitative data, but research that highlights with clarity and precision the connections and relations between the "centre" and the "periphery", showing, yet again, that the interpretation suggested by Immanuel Wallerstein must coincide with Charles Tilly's classical definition of "state".

To conclude, we can say that Alves Carrara's work is not only an annotated guide of use to the scholar for organizing archival research, but also a critical tool from the historiographical and methodological point of view.

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F. Colombini, A. Calabrò, *Crisi finanziarie. Banche e Stati. L'insostenibilità del rischio del credito*, Utet, 2011, pp. 175.

FABIANO COLOMBINI AND ANDREA CALABRÒ take as their starting point the Lehman Brothers' bankruptcy in September 2008 and a series of almost impossible rescue operations of giants such as the Bank of America, Fannie Mae and Freddie Mac to illustrate the first blows at the financial systems' equilibrium, until its total collapse that began with the subprime mortgage financial crisis and continues relentlessly with the sovereign debt crisis.

"Driven by the logic of short-term profits", write the two economists, "the banks forget that brokerage presupposes the ability to manage risks, not their systematic transfer to the financial markets".

From the economic analysis it emerges that the recent financial crises have occurred in two phases: the first connected with the subprime mortgage financial crisis, between 2007 and 2009, and a second phase connected with the sovereign debt crisis from 2009 to 2011.

It was in 2007 that the mortgage market went into recession. The banks met the request for loans, even from customers who had very low creditworthiness, covering up to 100% of the property. At a practical level, according to the two authors, the banks failed to screen and monitor their customers, in other words to evaluate the customers on the basis of their risk of insolvency.

At first such indiscriminate lending enabled the American banks to obtain major profits and to distribute excellent dividends to their shareholders. The problem arose when the customers could not meet their debts. Worried about the losses they were suffering, investors invested less or asked for a higher premium for the risk.

Colombini and Calabrò explain that the banks used techniques such as securitisation and spin-offs to transfer the credit risks incurred by their own customers' loans to outside operations.

However, the many waves of panic put a strain on the solidity of the financial systems. In the book it is clear that it was the atmosphere of uncertainty that paralyzed the interbank and bond markets. Whereas – the book states – "the stock markets became the subject of sales which banks, insurance companies and movable funds, driven by the need to make money, tried out".

The two authors describe the chain in the following way: the credit risk created by the bank's customers who had never been screened or monitored was

transferred to insurance. Here it became a double risk: on the one hand, the risk of default or, in any case, delay in paying the debt on the part of the customer to whom credit was granted; and on the other hand, the risk of default or delay in paying the debt on the part of the investor to whom the risk had been transferred.

Hence the decision on the part of the governments to intervene. Many financial brokers avoided bankruptcy because of government intervention. As well as “too big to fail”, there was also “too entangled to fail”: in other words, the financial giants were too closely interconnected, and therefore if one of them went bankrupt, it would trigger a chain reaction.

Therefore state intervention rescue plans to overcome the subprime mortgages financial crisis got under way. According to Colombini and Calabrò there were four types of central bank and public authority intervention.

- 1) Mortgage renegotiation, which aimed first and foremost to curb the fall in property prices. This operation involved extending the deadlines for mortgage payments and reducing rates. The authors show that this measure aimed to help both the borrower, who would be able to overcome the difficulty of payment and the lender, who would avoid the consequences of customer insolvency.
- 2) The central banks intervened, too, by buying toxic securities, i.e. securities with a market value lower than the official value. Thus the banks' liquidity circumstances improved, but only partially, according to the two economists.
- 3) The setting up of a bad bank, i.e. a state or private holding company which, by purchasing the banks' bad assets, cleans up their balance sheet, re-establishing a fair price. This procedure would lead the banks to standardize screening and monitoring, avoiding new liquidity crises. In actual fact, according to Colombini and Calabrò, the banks' credit squeeze put a strain on enterprises' investments.
- 4) Lastly, the authors explain that the government intervened on 17th September 2008, becoming a joint share holder of the giant AIG with a quota of 80%. Public recapitalization was one of the paths followed in various countries

It emerges from this book that state intervention actually highlighted the fragility of public finances. The authors believe that the subprime mortgage crisis was the main cause of the sovereign debt crisis. “The difficult economic situation” – they write – “caused a decrease in tax revenue and an increase in expenditure on income support, especially for those who lost their jobs”.

The importance of prevention is pointed out and the authors argue that an honest management of expenditure and the national debt are essential to improve individual countries' credibility in the financial markets. Colombini and Calabrò believe that two conditions are essential: the reorganization of the public sector and the allocation of public resources to well-run economic sectors.

Furthermore, it is the globalization of financial markets and economies that causes a chain reaction so that the crisis of one individual country has repercussions on the rest of the world.

The authors question whether the introduction of more regulations will avert the onset of new global crises. They point out that the crisis has affected banks and states, two subjects that are tightly controlled by regulations, and argue that both internal controls, by means of risk management, and external controls, by means of purpose-built companies, are the key to monitoring risk exposure. It is the effects of constant contamination between financial and economic sectors that require increasingly stricter controls.

In conclusion, this book is a detailed investigation into the development of the international economy, with particular reference to the last four years.

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M. A. Denzel, J. De Vries, P. Robinson Rössner (eds.), *Small is Beautiful? Interlopers and Small Trading Nations in the Pre-Industrial Period*, Franz Steiner Verlag, Stuttgart, 2011, pp. 278.

THE GREAT PROTAGONISTS OF ITALIAN and international trading, from the big merchant families in medieval times to the major commercial powers in the early modern period, have often been the subject of historical debate. Until now, the importance of countries such as Spain and Portugal in international trade in the fifteenth and sixteenth centuries has been closely studied and investigated. Similarly, the economic performances of England, Holland and France since the twelfth century are common knowledge. Thus, the idea has long prevailed among historians and in theories about mercantile efficiency that size, the "critical mass" of the trader (be it a nation or a trading company), was the sole element that determined success.

The proceedings of a session of the XV World Economic History are collected in this fine volume edited by Denzel, de Vries and Rössner which, at long last puts an end to a myth that has unjustifiably characterized research on international trade. The papers of those who took part in the conference session entitled "Interlopers and Small Trading Nations in the Pre-Industrial Period" throw new light on the role of small (in area) trading entities which, however, have been important in international trade, in terms of the volume of goods traded and the revenue produced. The first part of the book analyzes the commercial history of Denmark, Scotland and Sweden, countries that arrived on the scene of large-scale Atlantic trade, moving into the space left by the big European powers. Klas Rönback writes about the interesting case of the kingdom of Denmark which, during the seventeenth century, thanks to the acquisition of three Caribbean islands (that went on to become the American Virgin Islands in 1917), began producing and trading in sugar cane, competing with success against the almost-monopolistic English and the experienced Dutch, thereby enabling the small kingdom of Denmark to trade in a colonial product that was in great demand in European markets.

Denmark is also the focus of the paper by Martin Krieger, who analyzes the presence of Danish merchants on the Malabar Coast in India from the end of the seventeenth to the eighteenth century, near the British settlements (especially Calcutta), for which the Danish settlement acted as a free port. As well as opening up the huge Chinese market to the Danish Crown, the Danish settlement at Tranquebar enabled the Danes to compete financially with the British colonies, since the small Danish port in India did not levy duties on the colonial goods that were being exported. Victor Enthoven analyzes the founding of the Dutch West India Company and its history between 1640 and 1664. The Dutch Company was a major player in large-scale Atlantic trading during the seventeenth century, because of the trade that developed between Brazil and Holland (valuable timber, sugar and coffee) and between the colony of New Amsterdam, the Antilles and Holland (slaves, sugar and furs). In its short but very intense existence, the Company became the English companies' biggest competitor, to the extent that the British Crown had to intervene with military force to subdue Dutch enterprise.

Another very interesting paper is that by Leos Müller on the Swedish East India Company which, founded in 1731, immediately began trading in the East using the Cape of Good Hope route and specializing in niche products

such as tea. Despite the fact that tea was a product that the East India Company practically monopolized, the Swedes succeeded in using their command over the North Sea market to their own advantage. They seized the opportunity to enter the English market, using smuggling and the price differential deriving from a higher level of productivity than that of the English competitor.

In two papers, Philipp Rössner examines the role of Scottish merchants in the tobacco trade and the fishing trade. After the Act of Union of 1707 which united the English and Scottish Crowns, Scottish merchants had access to the Atlantic market, which the English dominated without any fiscal or customs constraints. Thanks to their considerable experience, acquired in sailing in the North Sea and the North Atlantic, the Scottish merchants set up a profitable route between Chesapeake Bay and Scotland for trading tobacco that was grown in most of the southern states of what is today the USA. This profitable business made Glasgow the real tobacco capital of Europe. Herring fishing was the other sector in which the Scottish specialized; they were already well-established, big cod-fishers, and they used their navigation and their herring-preservation techniques, following improvements brought by the Dutch, whom they replaced as suppliers of herring throughout the Scandinavian markets.

The second part of the book deals with individuals. Claudia Schnurmann's paper is on the Scotsman John Parish, who settled in Hamburg in the mid-eighteenth century. Through illegal trading with the rebel English colonies on the other side of the Atlantic, he managed to become the Consul of the newborn United States. This is clearly the story of a shrewd merchant, who knew how to occupy the vacuum left by official trade and the outbreak of hostilities between England and her ex-colonies.

Christian Luca analyzes the work of another trader-consul, Zorzi Cumano who, during the worst period of the Venetian Republic (Venice had by then lost all her trading supremacy in the Mediterranean), distinguished himself for his ability to re-establish trading between the port of Durazzo (where merchandise poured in from the inland areas of the Balkan region) and Venice. It is clear, as Luca points out, that by the eighteenth century Venice was no longer the great trading power she had been in medieval times and in the early-modern age, but the case of Zorzi Cumano shows the Venetians' continued aptitude for trading.

Andrea Bonoldi examines another "small business" case: Jewish merchants' activities in transalpine trade, documented in the records of the Bolzano fairs and the Bolzano trade tribune. Although they were not very numerous, the Jewish

merchants, who resided in the towns of Southern German states and the Hapsburg Empire, often went before the commercial tribunal in Bolzano, appealing to its authority and its balanced judgements, especially when the Jewish communities were driven out of many regions in Germany and were debarred from local trading. After this, the Jewish merchants from Germany specialized in long-distance trading, using the Bolzano fairs as a place for buying and selling.

Marie-Claude Schöpfer and Gabriel Imboden analyze the commercial enterprise founded by Peter Anton Loscho in the Swiss city of Brig. In the second half of the eighteenth century it specialized in trading on a vast supra-regional scale, in Italy, Switzerland and France, along all the borders, taking advantage of the temporary territorial unity guaranteed by the Napoleonic authority. The case of Loscho and his family is emblematic of a merchant, who was not specialized but who could move at ease throughout the entire region of the Central Alps, making good use of the advantages provided by single-product trading and following the fluctuations in demand and supply.

The last paper, by Ian Blanchard, deals with the Silk Route, a trading channel known since the early Middle Ages. Blanchard's paper, however, analyzes this route from 1650 onwards, when the sea route via the Cape of Good Hope was more competitive than the overland route. Blanchard goes on to show that climate and external institutions (caravanserais, fortified towns, victualling points) were the essential factors in this long journey across Asia.

To conclude, it may be said that the trading successes achieved by the small mercantile states and by small bodies were largely due to their size. Being able to behave like free riders, without particular legal or political obligations and, above all, not having to bear the costs of a large organization, enabled smaller players to acquire greater productivity and greater agility in adapting to the change in international economic conditions.

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A. Gagliardi, *Il corporativismo fascista*, Laterza, Rome-Bari, 2010, pp. 193.

IN AN ARTICLE WHICH APPEARED in the review *Critica fascista* in April 1931, Giuseppe Bottai (1895-1959), a central figure in the regime and in Fascist corporatism, wrote: "economic order, in whose stability we have always been believed

up till now, has been shattered for ever: any attempt to reconstruct it would be a vain undertaking; it must be replaced by a new economic order... The corporative system, considered by most people a mere legal system, now appears to be the ideal system for a new political civilization. Although the details of its practical implementation are open to discussion, in its essence the corporative system is undoubtedly the system to renew modern economic policy”.

Bottai's words may be considered emblematic of Fascism's wish to present itself as an answer to the historical issues which arose after World War I, as a result of the crisis of liberalism and the inability of the market to regulate itself. Bottai's formula was an alternative to both capitalism and socialism and was based on the corporative system: the so-called Fascist “third way”. Benito Mussolini (1883-1945) declared in 1933: “Corporatism goes beyond socialism and goes beyond liberalism, and creates a new synthesis”.

However, once the principle was stated, getting corporatism under way was a very different matter and historical research has, on more than one occasion highlighted the difference between theory and practice in constructing corporatism. Nonetheless, if we look closely, these studies are incomplete: although it is a fact that Fascist corporatism declined, many aspects in the complex interpretation of this decline remain to be clarified. In this respect, Alessio Gagliardi's book helps to throw light on the subject.

Gagliardi is a scholar of Fascism who lectures and carries out research at La Sapienza University in Rome and at the University of LAquila. In the first part of the book, he briefly considers the ideology and main figures of corporatism or, more precisely, of the different corporatisms. In fact, “in the vast Italian literature on corporatism, there are various definitions” (p. 12). The names and the intellectual profiles of Filippo Carli (1876-1938), Alfredo Rocco (1875-1935) and Ugo Spirito (1896-1979) emerge, together with that of the already-mentioned Giuseppe Bottai. It should be noted, however, that a direct connection between ideology and the practice of corporatism is evident only in the case of leading figures in the Fascist hierarchy (*in primis* Rocco and Bottai), while for the others this connection is very weak.

The second part of the book deals with corporative institutions and the events that led to their gradual development which are carefully reconstructed with a balanced critique of the various theories about them. The main subject is what the National Council of Corporations (*Consiglio nazionale delle corporazioni*) actually did, in the light of the observation that “the ideological aspects of corporatism and the legislative constitution appear to have been

very thoroughly researched, whereas research on the “real” functioning of corporatism, in other words on the actions of the corporate state’s machinery, is scant and biased” (p. XII).

The last part of the book deals with the corporations that came into force in 1934. If we consider that the National Council of Corporations was not actually set up until 1930, we can understand Bottai’s words when he stated, not without some bitterness, that “there were corporations without corporatism”. And when they began to function, there was a “corporatism without corporations”(as Sabino Cassese wrote in *Lo Stato fascista*, 2010). On the one hand, the building of corporate machinery was beset by delays and contradictions, and on the other hand, state intervention in the economy took place for the most part in non-corporate institutions. From this point of view, the founding of IRI, under the direction of Alberto Beneduce – who headed an outstanding ‘brains trust’ composed of Donato Menichella (1896-1984), Alfredo De Gregorio (1881-1979), Sergio Paronetto (1911-1945), and Pasquale Saraceno (1903-1991) – highlights the marginalization of the corporate bodies.

In the light of these observations, it seems pertinent to ask whether the Fascist regime’s corporatism policy ended by turning into a mere propaganda operation without any tangible results. Gagliardi’s answer to this question is clear: “it is reductive to dismiss the corporatism experience as a failure” (p. 117). Corporatism did have some effects on the relations between the different social classes and between these latter and the state, acting as a channel that brought together and sort to resolve different and sometimes conflicting interests. Gagliardi’s innovative contribution largely lies in his highlighting these effects on the economic sector, in relations with the trade unions and in the field of industrial relations. His analyses are always carried out with reference to authoritative sources, both primary and secondary.

If the “long wave” of history is to be taken into account, it should be remembered that, immediately after World War II, democratic corporatism was discussed and that, although the law was implemented with a delay, there was a place in the constitutional charter of the Italian Republic for an advisory body, the CNEL, which was appointed to represent the economy and labour.

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O. Galor, *Unified Growth Theory*, Princeton University Press, Princeton, New Jersey 2011, pp. VII-325.

THE BOOK *Unified Growth Theory* written by Oded Galor, the Herbert H. Goldberger Professor of Economics at Brown University, summarizes the main results of the original research, conducted by the author over the past ten years. The theory presented in the book may be considered a real breakthrough within the field of economic growth. The main source of innovation introduced by Galor's line of research is the unified approach to analyzing long-run economic development. In particular, the ground-breaking contribution provided by the Unified Growth Theory (UGT) relies on the ability to explain the transition through the central phases of world development – and thereby the process which characterized the entire course of human history – by means of a single framework of analysis. Most importantly, a distinctive feature of Galor's theory regards the endogenous dynamics governing those crucial relationships among the main factors that triggered the transitions across the different growth regimes, namely population, technology, and human capital.

Previous theories of economic growth were unable to explain the long-run change from the Malthusian model to modern growth. On the one hand, Malthusian models possess a predictive capacity when assessing the stagnation in per-capita income that affected pre-industrial societies. Any temporary increase in per-capita income, in fact, led to higher birth rates, since the value of families was connected positively with an expansion in the number of children. The increase in population impacted negatively on per-capita income, due to diminishing labour returns because of a fixed amount of available land. At the same time, technological progress increased the size of the population, but did not improve the standard of living. Pre-industrial societies were therefore trapped in a vicious circle of stagnation, in which the wealth of the population was fixed at subsistence income level. On the other hand, first, exogenous growth models, and then endogenous growth models established the theoretical foundations of the modern stage of economic growth, characterized by a sustained increase in per-capita income. The main innovations these models brought were the introduction of physical capital accumulation (i.e. capital deepening) and technological progress – in the case of exogenous growth models – and the adoption of a broader notion of capital, including

human capital, whose returns were increasing or at least non-decreasing – in the case of endogenous growth models.

Contrary to Galor's theory, however, such types of models, be they Malthusian, exogenous or endogenous, failed – and fundamentally did not aim – to explain the transition through the different stages of development and to identify the sources of the progressive reversal in the positive relationship between per-capita income and population which accompanied the evolution of human history in the very long run. In a nutshell, UGT analyzes sequentially in a single dynamic system i) the era of Malthusian stagnation that characterized most of human history; ii) the escape from the Malthusian trap and the increase in growth rates of per-capita income and population; iii) the emergence of human capital formation; iv) the onset of demographic transition; and v) the emergence of the modern regime of sustained economic growth, as well as the marked divergence in per-capita income across countries.

The central part of UGT is founded on Malthusian interaction between the population size and the level of technology. The gradual increase in productivity since the seventeenth century gave rise to a progressively larger population in Western countries, which in turn had a positive effect on the rate of technological advancement. For a sufficiently large population, in fact, the rate of technological progress is a positive function of the size of the work force and the level of education, even though it is not particularly high. Beyond a critical threshold, technological progress triggers the demand for human capital due to, for instance, the development of technology for skill-intensive industry. At some point, households start to benefit from investment in human capital and face a quantity-quality compromise in child-rearing. This mechanism leads to an optimal investment choice between the quantity and the quality of children, which is affected by the rate of technological progress via the demand for education. Thus human capital formation created powerful incentives to families to reduce fertility rates and trigger the demographic transition, which made it possible to convert the advancement generated by factor accumulation and technological progress into a sustained growth rate of per-capita income. The Malthusian equilibrium ultimately broke down, giving way to the modern stage of development.

The theoretical foundations of UGT are based on the endogenous interaction between demography and technology. Technological progress, the demand for human capital, and the demographic transition were the main

forces that led the world population to escape from the Malthusian trap and to start on the path of development and well-being. Differences in the timing of the demographic transition also provide an explanation about how the great divergence between rich and poor countries arose, as well as about the emergence of multiple growth regimes in the global economy, as has been recently documented by empirical research.¹

Some criticism may be directed at UGT. It seems that Galor's theory does not fit two historical facts of primary importance. Firstly, it is not consistent with the timing of the demographic transition in France, which began in the second half of the eighteenth century – at least one hundred years before the rest of Europe – and, according to demographers, was not much related to economic factors. Secondly, it is not fully able to account for the technological improvement that took place at the onset of the British Industrial Revolution and generated the sharp increase in per-capita income. Recent historical research has shown that the mechanisms behind technological progress in Britain were due to factor prices more than to demographic dynamics.² In particular, the wages of British workers were relatively high, while energy and capital prices were quite cheap. Expensive labour induced inventors to create machines that replaced labour with capital and energy. As a result, technological innovation was mainly driven by capital-labour substitution and only to a lesser extent by demography and education. Therefore UGT shows some lack of predictive ability in the explanation of the French demographic transition and the British Industrial Revolution. Those episodes, however, may be considered exceptional in human history. When coming to explain the more general case of the Second Industrial Revolution, Galor's theory fully regains its interpretative power.

Notwithstanding the aforementioned sources of criticism, UGT may be firmly considered one of the main methodological and conceptual innovations in the theory of economic growth over the last twenty years, since the endogenous growth models were introduced in the literature on the subject at the end of the 1980s. To conclude, the contribution to economic science provided

1. G. Di Vaio and K. Enflo (2011), "Did Globalization Drive Convergence? Identifying Cross-Country Growth Regimes in the Long Run", *European Economic Review* 55: 832-844.
2. R. C. Allen (2009), *The British Industrial Revolution in Global Perspective*, Cambridge, Cambridge University Press.

by Oded Galor poses an intellectual challenge for more general macroeconomic models too, models which still need to provide comprehensive and endogenous explanations regarding the radical changes that affected the world economy in the aftermath of the economic and financial crisis.

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G. Guarino, *Diritto ed economia. L'Italia, l'Europa, il mondo*, i Quaderni di Economia italiana, Rome, 2011, pp. 159.

IF THE DISTINCTIVE FEATURE of the past millennium has been the “speed of change” the hardest task is to establish the terms of the analysis, be it economic, political, social or cultural.

References are an imperative for understanding events and taking action, even though their identification often correspond to their outcome. But a further challenge is now added to the speed of change: the end of the political and economic supremacies that determined the last century has given way to new macro-regional realities and to the collapse of walls that oblige individuals and organizations comparing themselves not only with “the others” but also with a near-future perspective – that in many cases is already a reality – made of cross-civilizations, coexistence of multiple cultures and the sharing of problems and solutions.

In such a context, we need to redefine the way we interpret changes and their causes. Above all, we need to find solutions which concern, *tout court*, mankind and that may be defined as “high governance”. The twenty-first century has been characterized by changes, the extent of which is still difficult to gauge. Such changes, affecting society as a whole, particularly refer to the introduction of new information and communication technologies and globalization.

Giuseppe Guarino’s book analyses these changes from a very particular point of view: the view is that of the complex relationships of systemic interdependence that exist between the legal system and the economic system. The book consists of five essays, which describe and analyse in detail the present-day challenges faced by the different “legal bodies” – a term whose meaning is deeply and wisely examined by the author – including the state, the Euro-

pean Union, the world and even the private system of creating and managing international finance. The author interprets the present through past events and experience coming from the past, with the ultimate aim of predicting future scenarios. The values and the principles in which the author believes emerge clearly in the analysis: principles that at one and the same time derive from the law and give rise to the law, those belonging to a perfect democracy. Legal reality pervades the whole book because, as Guarino points out, "everything has a legal qualification".

The introductory essay "Economic Theory and Formal Theory of Law" provides the key to understanding the other four essays: the interdependence between law and economics. Law consists of regulations, which are inflexible to a greater or lesser degree, but economics moves quickly, is flexible and in a continuous state of flux, and is projected towards the future. The author immediately helps the reader to interpret history from this viewpoint, providing him with the instruments necessary for understanding it. He skilfully explains two concepts: the concept of "legal body", a completely new concept in which "law" plays a determinant role – although it is always mankind that determine its beginning and its end – and the concept of "organization" as an essential part of the implementing body of the state or any other law-making organism.

The second important essay, entitled "Welfare State and Development in Italy (1945-1992)" presents a cross-section of Italy and the ever-changing international context of which it is part. The accent is put on the role of state intervention in the market economy as it occurred in a specific country like Italy in that specific time. Three phases are identified. The first stage, from 1945 to 1951 is universally recognized as the "reconstruction" period, but in actual fact meaning a lot more, because it was in those few years that the seeds were sown for the subsequent course of Italian history. The Italian Republic was created and, with it, the Constitution on which it is founded. Decisions of economic and social policy were taken, the relationships between institutions – for example the Bank of Italy and the Treasury – were regulated, institutions were created, and, more generally, events matured, leading to positive results both for the economy and society. The second stage, from 1951 to 1980, was the most prosperous, since the average growth rate of Italian GDP was higher than that of the main industrialized countries. The description of this stage is particularly clear. Events moved rapidly and had a positive features. Every action undertaken found its proper place and proved to be beneficial

for the whole: the puzzle is completed and all the pieces are in the right place. The positive virtuous circle comes out strongly and inspired everyone to be part of it. The welfare state system, sanctioned in the Italian Constitution, found total fulfilment.

It was during this phase that the building of institutions which were later to become the European Union was started. In 1951 the first European institution, the European Coal and Steel Community (ECSC) was created, followed by the EEC and the EURATOM in 1957. Subsequently, there was a strong incentive to open up the markets: the economy thus began its long, and still uninterrupted, course of economic and financial globalization, which, however, as Guarino points out, was not accompanied by a commensurate process of legal globalization. The world changed but legal bodies were not flexible and were reluctant to change in order to adapt to the new economic, cultural and social conditions. Between the late 1970s and the early 1980s the virtuous circle that had accompanied Italy's social and economic development shattered. Italy's whole system began to totter. The third phase, that of decline, which Guarino divides into two parts, began: the first one, that lasted until 1991 and the second one, begun in 1992 and still under way. Here again, Guarino makes a critical analysis of the causes of the crisis and the steps taken to find a remedy for it.

Meanwhile, the construction of what Guarino calls the Eurosystem continued: in 1979 with the creation of the EMS to ensure monetary stability, needed to contain the fluctuations of the exchange rates in the EEC countries; in 1986 with the Single European Act; in 1992 with the Maastricht Treaty; and, lastly, in 2010 with the Lisbon Treaty.

The other three essays analyse the economic and social dynamics in the new European and international context, examining the development of the production, banking and financial systems.

It is pointed out that, where flaws in regulations exist, the specific stakeholders – for example those dealing with international finance – take advantage of that, but causing, on the other hand and in some cases, huge damage for the entire system. The latest financial crisis is a clear example of such damage. Guarino, talking about globalization, does not ignore the dynamics of emerging countries like China and India and their positioning on the international scene; further, he also reflects on the changed role the USA is taking on.

Particular attention is paid to the evolution, or even “involution”, of the European Union. The EU treaties are binding for the countries that agree to

them, and leave individual states no freedom of movement, and in many cases EU regulations prevail over those of Member States. Guarino is especially critical of the implementation of the Stability Pact, that compels the states to submit to stringent budget constraints which, not allowing for the specificity of each country, in some cases cause a worsening of the crisis, as in the case of Italy. In addition, Guarino is critical about the way the Euro was introduced and is managed, and about the role of the European Central Bank, which lacks the political authority necessary to handle the single currency, making a comparison with the Federal Reserve System.

The European Union seems inadequate to face the new challenges: it is not cohesive, its economic structure is top-heavy and lacks authority. The Member States keep their sovereignty and are not prepared to give up more than a very small part of it and there is no common military force. It is an aggregation rather than an integration of states. It is like a puzzle in the making, with some pieces missing and with the other pieces not fitting together as they should.

The global context is continuously changing but Europe seems to be at a standstill. Guarino, then, make us think about the need that this complex organism, this "imperfect Europe", in order to become perfect, should bring about a significant change, becoming a sovereign state with all power: "*Covering the last mile of the European institutional project is not an option. It is a "must".*"

Emanuela Scridel
LUISS Guido Carli, Rome

B. Jacquillat (ed.), *1929-2009: Récession(s)? Rupture(s)? Dépression(s) ?*, Presses Universitaires de France, 2009.

LE CERCLE DES ÉCONOMISTES, an association of thirty economists devoted to the study and discussion of economic issues, in November 2009 published the book *1929-2009: Récession(s)? Rupture(s)? Dépression(s)?* edited by Bertrand Jacquillat. The volume belongs to *Les Cahiers*, a series produced by Le Cercle des économistes that every year deals with topical macro- and micro-economic subjects.

With its more than 150 pages, *1929-2009: Récession(s)? Rupture(s)? Dépression(s)?* consists of ten chapters, each written by a different economist, and

aims to make a detailed comparison of the crisis of the 1930s with the present-day crisis. The underlying theme is the importance of the historical perspective; in the Preface, Bertrand Jacquillat openly declares that “(ce) thème est d’ailleurs au cœur de ce cahier par son titre même qui cherche à cerner les similitudes et les différences entre 1929 et 2009”. Furthermore, *Le Cahier* does not neglect the binomial life sciences and social science: François Benhamou’s paper focuses on the economic recession’s consequences for the world of culture.

The papers by Pierre Dockès “*Leçons des ténèbres: la grande fermeture des années trente*” and by Philippe Trainar «*Portée et limites de la comparaison de la crise actuelle avec la crise de 1929*» are a monitor for the need to turn to economic history in order to analyze and understand the mechanisms of the economy. Pierre Dockès extols the advantages of a knowledge of history, because it provides precious lessons that enable us to avoid repeating mistakes made in the past; Philippe Trainar recalls that “*John Richard Hicks estimait qu’il n’était pas possible de comprendre le fonctionnement de l’économie si l’on n’avait pas une solide formation préalable en histoire économique*”. The end of Marxism and its historic vision of the economy, largely inspired by Hegel, the long period of uninterrupted growth after World War II, the development of statistics and data-processing techniques have, from the 1980s onwards, gradually led to the loss of interest in economic history in favour of an ahistorical obsession, focused on current events.

Historic facts, however, are never repeated identically: we should have the “humility” to accept that the past can present itself again in different forms, adapted to the new situation. The theory of economic cycles as a law that divides the economy into periods of expansion or recession, is valid only if it is able to contextualize an event in the historical period in which it occurs. Thus, the time taken by the two different crises to spread differed: in the 1930s contagion happened gradually in different areas, but the 2008 crisis, which broke out in a globalized economy, was immediately worldwide. Moreover, timing sometimes influences political reactions. Christian Saint-Etienne reveals that there was a political responsibility in the worsening of the Great Depression of 1929-1933: in fact, protectionist tariffs such as the Hawley Smoot, adopted in the United States in June 1930, triggered a harsh customs war and, consequently, a drastic reduction in international trade (in 1938 the value of world trade was a mere 65% of what it was in 1929) which sharpened the intensity of the crisis. In 2009, aware of the risks of a protectionist policy

(despite some attempts like the “Buy American and Employ American” campaigns), the politicians moved towards a better coordination of economic policies at international summits: “*tout montre, jusqu’ici, la volonté farouche du G20 et de L’Organisation mondiale du commerce (OMC) d’éviter la répétition des erreurs commises au cours des années 1930*”.

Economic history is incomplete without reliable and sufficient statistical data. The comparison of data regarding pay would have enabled us to see the signs of a new financial crisis *ex ante*: in 2007, just as in 1929, the pay differences between the financial sector and the rest of the economy reached peaks of 50%. Pay rises in a given sector are an advance indication that a bubble is forming in that sector; and so, had that data been analyzed, we would have had an indication that the financial sector was dangerous.

In his paper “*Quelles politiques économiques en 1929 et aujourd’hui?*”, Patrick Artus, with the aid of diagrams and historical series, analyzes the very different nature of the fiscal, monetary and commercial policies adopted after 1929 and after 2007. Contrary to what is believed nowadays, “*en réalité, le stimulus budgétaire dans les années 1930 a été de petite taille*”; in fact, government deficits then were never more than 1.5% of the GDP (public expenditure increased from 8% of the GDP in 1929 to 17% in 1934, but the tax burden increased consistently from 10% to 15% of the GDP); conversely, governments have responded to the present-day crisis with a large increase in public deficits. Patrick Artus also highlights the contrasting nature of monetary policies which were highly restrictive, especially in the United States, in the years immediately after 1929, and extremely expansionist nowadays, with very low interest rates and rapid growth of the monetary base. Jean-Paul Betbèze stresses the central banks’ major role in handling the agents’ expectations and in restoring confidence in the banking system, in order to avoid the deflationary spiral of the 1930s.

The “orgy of speculation”, as it has been defined by Jacques Hamon and Bertrand Jacquillat, must not cause further economic crises in the future. History again offers the solution to be adopted: the separation between the “*service public*” of money, controlled by the deposit banks, and the riskiness of the financial markets, to which investment banks are exposed. A few weeks after the inauguration of the Roosevelt administration in 1933, the Glass-Steagall Act, better known as the Banking Act, was passed, which imposed the “*muraille de Chine*” between the commercial banks and the merchant banks. During the 1980s, following the financial revolution, the Glass-Steagall Act

was gradually eroded until it was repealed once and for all in 1999. For Christian Stoffaës: “à finance globalisée, il faut une règle globale... le Banking Act global devra être universel et homogène, afin de parer à l'arbitrage réglementaire”, a simple rule that everyone can understand, applied worldwide.

The year 2008 saw a brutal drop in GDP and a considerable increase in the unemployment rate, but the economic data are far removed from those of the 1930s (the 1929 GDP level was not reached again until 1934 in the United Kingdom and 1936 in the United States and in Germany while, in 1933, the unemployment rate in the United States reached the catastrophic level of 25%). In the light of the comparison between the present-day financial crisis and that of 1929-1933, taking into account the considerable differences in fiscal, monetary and commercial policies, today we can be more optimistic about the outlook for the future. In order to avoid the incalculable economic and social tragedy of 1929-1933, Jacques Mistral stresses the need to find a new “*moteur de croissance*” that will revive investment, consumption, production and purchasing power in order to “*retrouver une croissance durable*”. Jacques Mistral and Jean-Hervé Lorenzi agree that “*capitalisme vert*” can be a solid stimulus for economic growth.

To conclude, there is no doubt that both crises broke with the past and with the pre-existing system and both the 1929-1933 crisis and the present-day crisis have brought about a profound economic recession. However, from the clear and deft analysis carried out in the studies in the book, it appears that the risk of a depression has been averted for the time being and that the Great Depression is destined to remain that of the 1930s and that alone.

Rita Mascolo

