

Perspectives on the Performance of the Continental Economics.

EDMUND PHELPS AND HANS-WERNER SINN (Editors). Cambridge, MA: The MIT Press, 2011. Pp. X, 500. \$40.00

This tome is a compendium of 15 papers originally presented at a 2006 conference. A number of the papers have updated information to 2010; however, the Eurozone crisis is obviously not addressed in this book, and little is said of the Great Recession. Still, this volume is a worthwhile collection of essays on problems facing the European economies, and is particularly strong in addressing issues surrounding entrepreneurship and labor markets. Edmund Phelps teaches at Columbia University, and Hans-Werner Sinn is at the University of Munich.

The volume's first chapter (by the coeditors) summarizes findings of the papers. The next four chapters cover studies looking at European entrepreneurship. In the second chapter, Roman Frydman and others cite surveys showing that while a majority of Americans would consider self-employment, only a minority of French citizens would do so. While the United States has had more business start-ups than in Europe, the population percentages who are business owners are essentially the same in both regions. The coauthors argue that more competition in the United States and a willingness to United States entrepreneurs to take on more risk than their European brethren, explains this seeming anomaly. They also argue that venture capital financing is easier to obtain Stateside. By contrast, Richard Robb in Chapter 3 notes that most United States venture capital financing is confined to two industry groups, life sciences and information technology (including telecommunications); in addition, American venture capitalists have funded investments largely in the Atlantic and Pacific Coastal states.

Andres Hoffman (in Chapter 4) asserts that the European Union (EU) challenge is to increase the number of start-ups and to create more "high growth firms"; in turn, he defines entrepreneurship as the "entry of new firms and the creation of high growth firms" (p. 93). Hoffmann discusses data problems in measuring start-ups in the United States and European Union. He defines a high growth firm as one that has grown at least sixty percent (measured by employment or sales) over three consecutive years; he determines that the EU lags the United States in such enterprises. Hoffmann lists "restart possibilities" (say, from bankruptcy); entrepreneurial education; "traditional" business education; labor market regulation; and entrepreneurship motivation as areas where the EU is

weak relative to the US (p. 106). Robert Schiller (in Chapter 5) examines issues related to risk, emphasizing that “scientific enterprise” that eventually creates new technologies requires a lot of time (in years) and money (in millions). Gylfi Zoega (Chapter 10) develops a theoretical model of entrepreneurship and innovation. (Another theoretical paper, by Hian Teck Hoon (Chapter 14), examines taxes, wealth and employment.)

In Chapter 6, Harold James discusses political and “cultural” issues. He states that countries such as France, Germany and Italy, because of narrow election victories by political parties in power, have experienced “political blockage” (p. 155); the German economy in particular is facing competition from the former Soviet-bloc nations. French politicians believe that the “rules of the global economy work against French national interests” (p. 156). James discusses the role of family-owned firms in the EU: he notes that family firms grew in Europe in part to compensate for “arbitrariness of the state” (p. 161), and that family-owned firms create a “locus of stability” (p. 163).

Andre Bhide (in Chapter 7) concludes that the US has led the EU and Japan in per capita income in large part because of American entrepreneurs’ ability to make use of “upstream innovations,” that is, using new technologies to create new products or improve existing ones; he terms this phenomenon “venturesome consumption” (p. 192). He looks in particular at the adoption of information technology by United States firms. Bhide raises interesting issues, such as the extent to which research and development (R&D) are as much downstream as well as upstream activities and whether too much focus has been placed on upstream needs for scientists and engineers. Phillippe Aghion and Ioana Marinescu (Chapter 8) look at macroeconomic issues related to government financing and economic growth in OECD countries. They conclude that countercyclical budget deficits promote economic growth, the more so in countries with “low” financial development.

James Heckman and Bas Jacobs (Chapter 9) look at skilled versus unskilled labor issues in the EU. They argue that “mainland Europe”, compared to “Anglo-Saxon” nations (principally the US, UK and Canada) has done poorly in the areas of skill use and skill maintenance, that higher education funding lags in Europe behind the United States and “Nordic” countries. Heckman and James note that Eurozone limits on budget deficits have made it difficult for Eurozone countries to increase higher education funding. (However, maybe because of timing, the paper

does not address recent cutbacks in US state government budgets for education.)

Robert Gordon's piece (Chapter 11) compares work, leisure and welfare issues between the US and the EU. He notes that the employment to population ratio rose in the United States as more women entered the labor force. Female participation also increased in Europe, but was "cancelled" out in large part because of rising European unemployment. Gordon notes that unemployment rates in the EU were higher than in the US across all age groups in the time period studied. He also examines issues related to taxation. Citing another study, Gordon argues that EU women on average do more "home production" than US women; the latter purchase more services, e.g., restaurant meals rather than cooking (p. 369). Gordon also looks at other facets of welfare comparisons between the US and EU, including housing and medical care (the latter is one area the US is worse off). Jeffrey Sachs (Chapter 12) looks at the Nordic countries (Finland, Sweden, Norway, Denmark), which are high tax/high government expenditure nations. He notes they do better on various economic metrics than continental European and Anglo-Saxon countries. Sachs also discusses their "workfare" programs, where government is the employer of last resort.

In Chapter 13 Sinn looks at factor price convergence, noting among other variables that immigration (such as among EU countries) and offshoring/outsourcing aid and abet that phenomenon. He argues (as he has elsewhere) that Germany is becoming a "bazaar economy," importing many components it used to produce formerly. The last paper by Phelps returns to cultural variables. Using survey data on "cultural values" and regressing such on different labor market variables, he found that Germany, France and Italy appeared "deficient" in measures of attitudes to work and to competition, compared to the US, Britain and Canada.

Although the information in the papers is slightly dated, this book is still an interesting read. It appears to be especially good in covering issues surrounding entrepreneurship in the United States and European Union, and as such is recommended to those studying that topic. The labor market papers are also valuable pieces for those interested in cross-country studies.

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