ECONOMIC AND BUSINESS HISTORY 24/25

LECTURE 6 – MEG AND GLOBALIZATION

Lisbon School of Economics & Management
Universidade de Lisboa

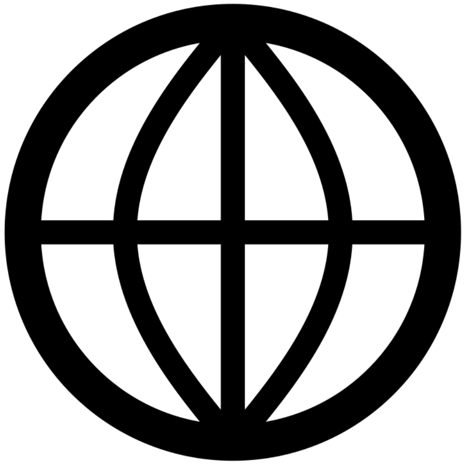
MEG and Globalization

Globalization and Growth

Commodities

Factors

1. Globalization



MEG theories

Growth theories

- **Galor's 'Unified Theory'**
  - Rapid growth emerges after a long period of improving population composition and increasing population, overcoming Malthusian limits
- **Historical analysis**
  - Rapid growth emerges in a context in which the price structure favours labor-saving innovation: England

MEG goes Global

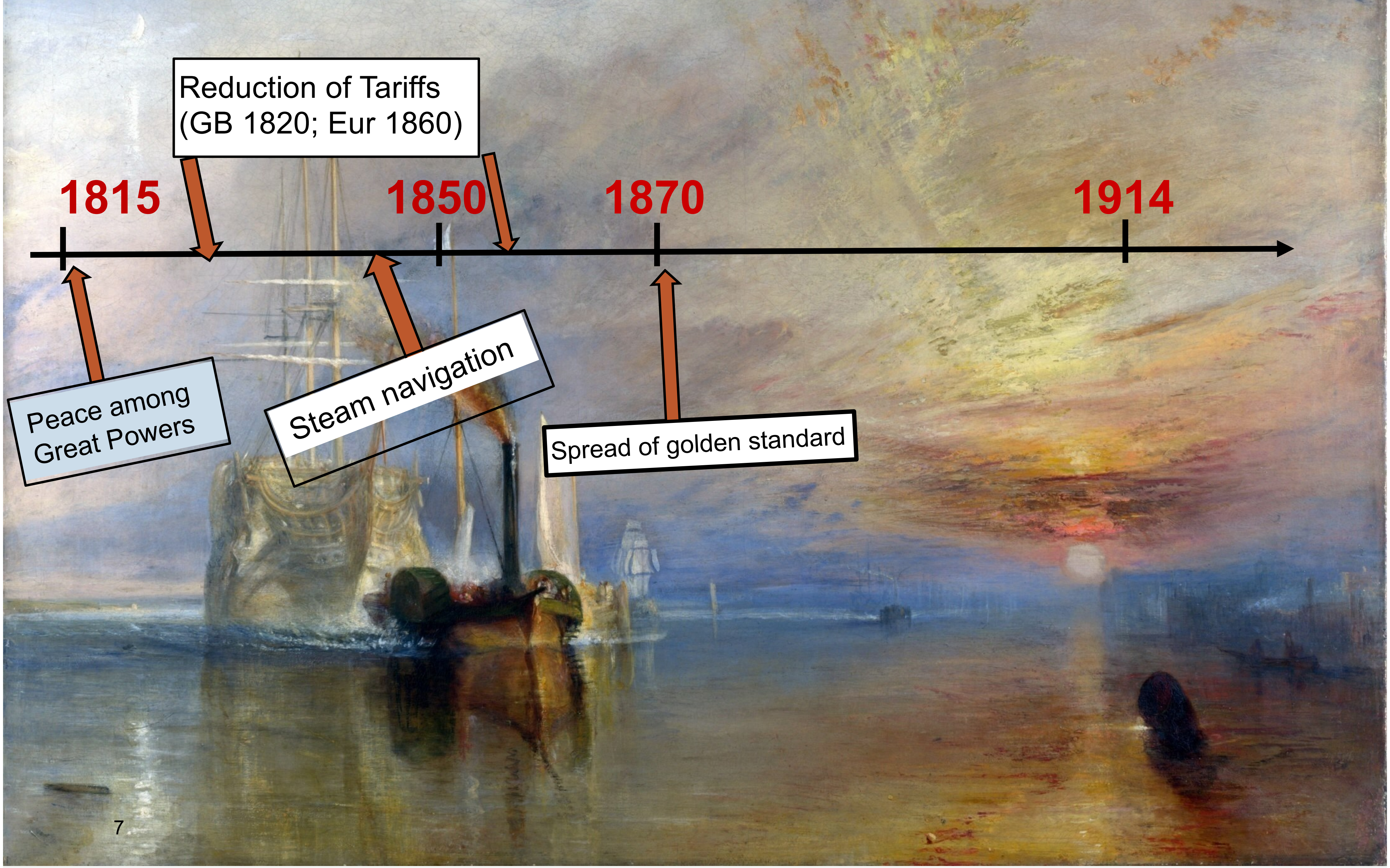
- **These two theories fail to explain one important feature of MEG:**
- Growth spreads across countries via the **international economy**
  - (not all countries need to be like England to participate in MEG: with cheap capital and energy and expensive labor)
- The spread of growth, however, is conditional to the a set of institutions and policies, that did not exist before 1820
- Only after 1820, can we say that "MEG went Global"

(Economic) Globalization

Markets enlarged to the world scale

- **Investment (in financial and fixed capital)**
  - **Capital** moves from countries where its abundant to countries where it is scarce, and where it commands higher **interests**
- **Migrations/Labour Market**
  - **Labour** moves from countries where its abundant to countries where it is scarce, and where it commands higher **wages**
- **Country specialisation**
  - International trade allows that each country identifies its comparative advantage
  - Integration of the world markets of tradable commodities

Forces of Globalization, 1815-70



World Trade, 1650-1815

High transport costs

Mostly limited to high value/volume commodities (ex: spices, tobacco, sugar, diamonds, silk, china...)

Absolute, rather than comparative advantages (Port-Engl is the exception with Port traded for woollen cloth)

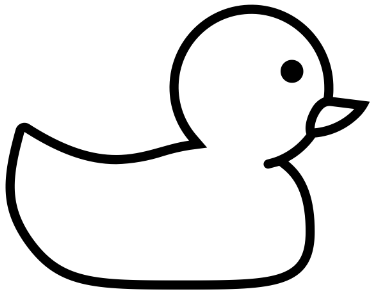
Protectionism in every border

European Empires trade exclusively with the mainlaind

World Trade in mercantilism, means **world war**:

- Anglo-Ducth Wars (1652-4; 1665-7; 1672-4; 1781-4)
- Nine Years War (1701-14)
- War of the Spanish Succession (1702-14)
- War of the Austrian Sucession (1740-48)
- Seven Years War (1756-63)
- American Independence (1775-83)
- Napoleonic Wars (1791-1815)

2. Trade



External Trade

Three mains causes for this increase:

- International order ensures peace among Great Powers (since 1815)
- States voluntarily open economic borders (since 1820);
- International transport costs decrease (since 1850);

Voluntary Liberalization (1)

- Free-trade initiatives across Europe
  - Denmark and Holland (small countries) had been open since the early 19th century
  - Pressed by the British public opinion, Parliament approved a series of laws aiming at freeing international trade, just like domestic trade was free
    - 1820, *Navigation Acts* are abolished
    - 1822, Redução das *Corn Laws* (abolished in 1846)
    - 1820s-30s, Gradual decrease of tariffs
  - *Zollverein,* 1833

International Trade (Imp.+Exp./GDP)

	1790	1820	1830	1870	1913
Hollanda	110%	33%	25,8%	115,4%	179,6%
Denmark		7,5%	17,5%	35,7%	61,5%
UK	24%	21,4%	18,8%	43,6%	51,2%
Germany				36,8%	37,2%
Spain	16%		6,0%	12,1%	22,3%
Europe		13,5%	11,5%	29,9%	36,9%
Europe (extra-European trade)			3,8%	9,2%	13,4%

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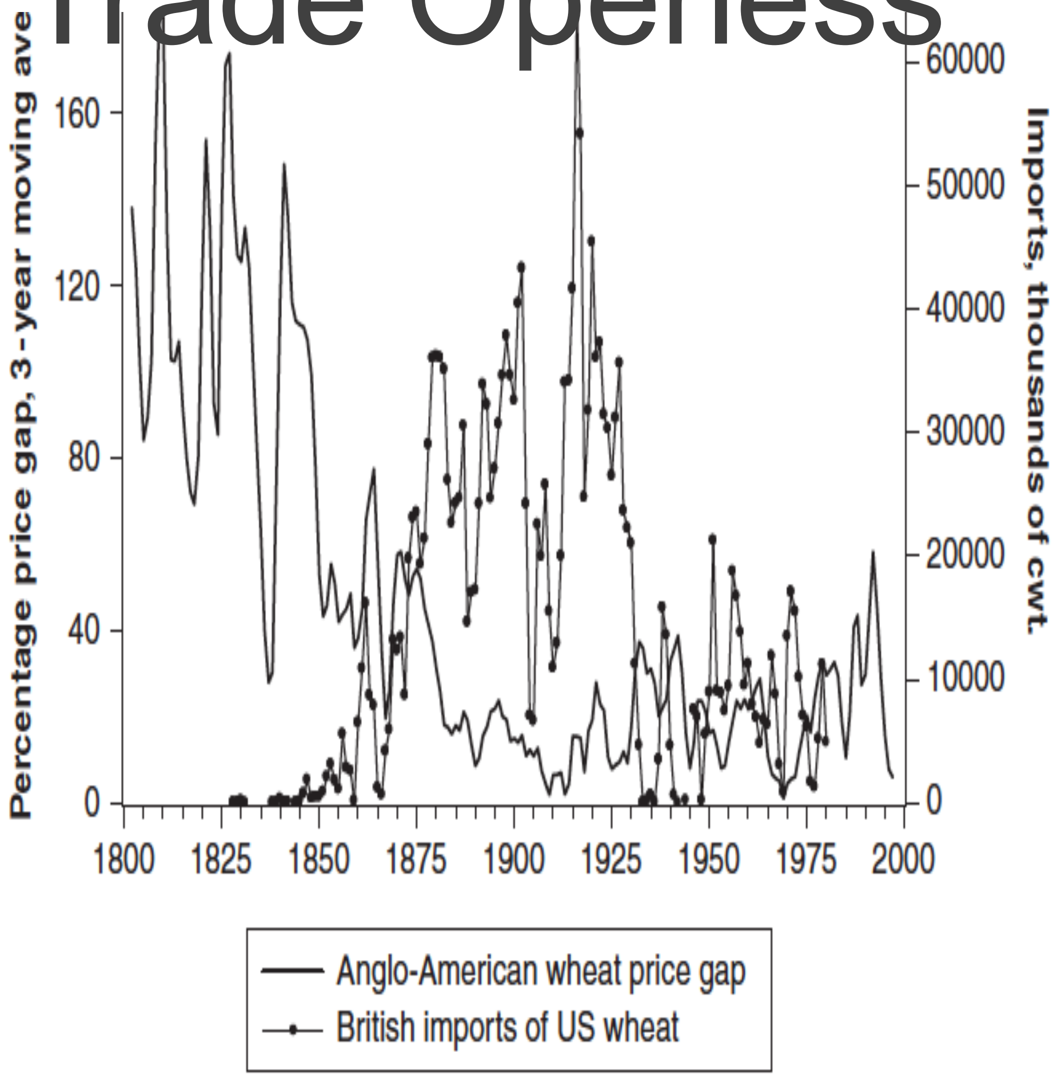
Impact of Trade Openess

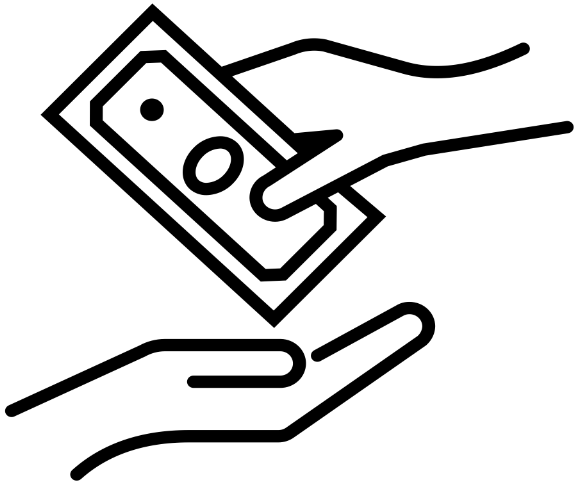
Market integration of main commodities:

- E.g., wheat, meat, cotton

This contributed to the increase in real wages, as foreign, more efficient producers substituted national producers



3. Factors



International Capital Flows

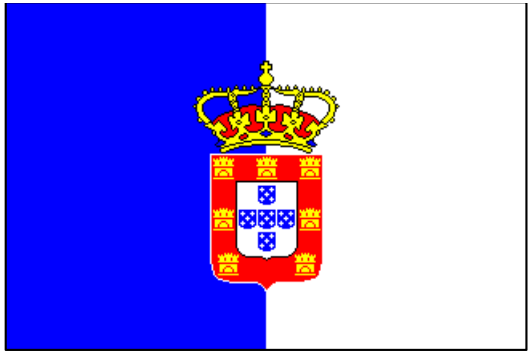
Neglible until 1870

- a) High exchange rate risk
- b) potential investors discouraged by risk of devaluations and excessive government debt

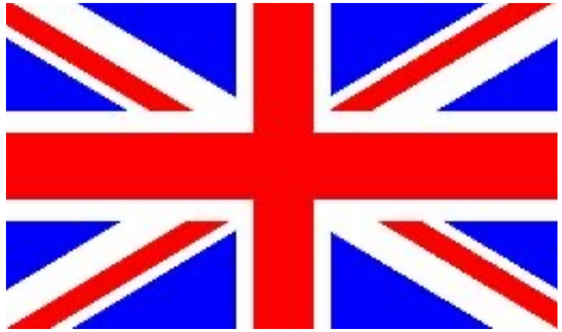
Adoption of the gold standard from 1871 throughout the world (Portugal since 1854; England de facto since 1821) changed this

Gold standard implied that national currencies are convertible in gold

- a) low exchange rate risk
- b) balanced budgets and low public debts



Classical Gold Standard

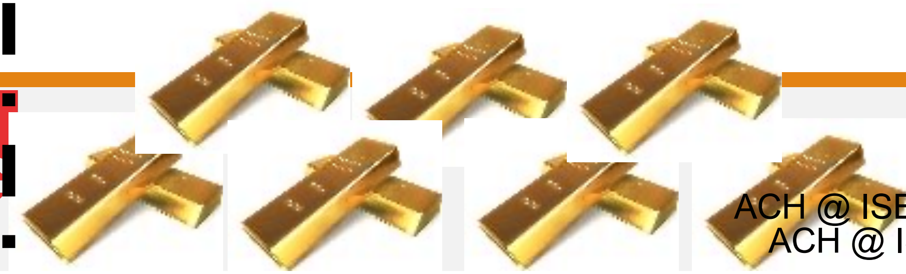


1000 réis
↔
1,626 g Au

ISSUING BANKS

1 pound
↔
7,32 g Au

ISSUING BANKS



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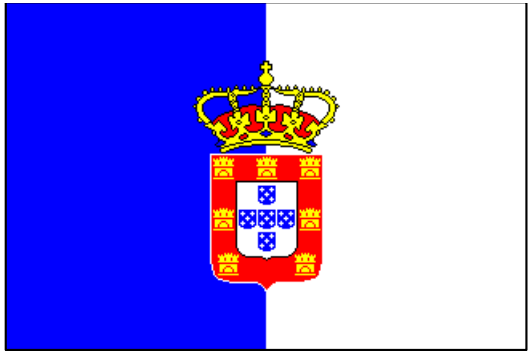

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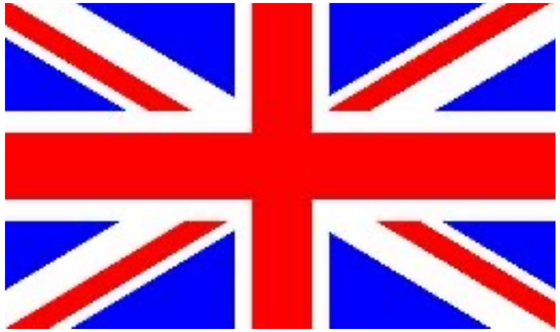


1 £ ↔ 1000 rs

7,32/1,626

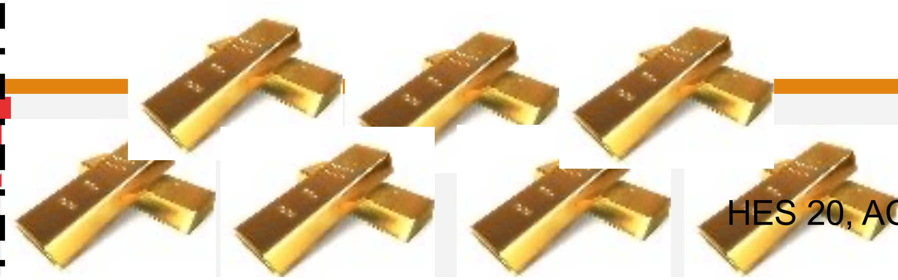
1 £ ↔ 4.500 rs

1000 rs ↔ 1,626 g Au

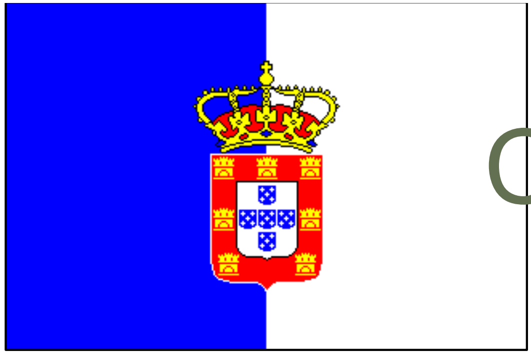
BANKS

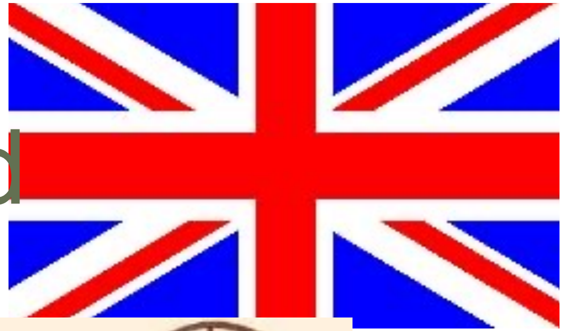
1 £ ↔ 7,32 g Au

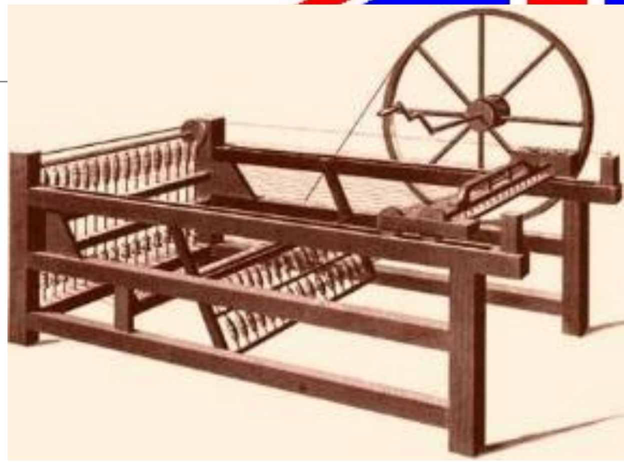
BANKS



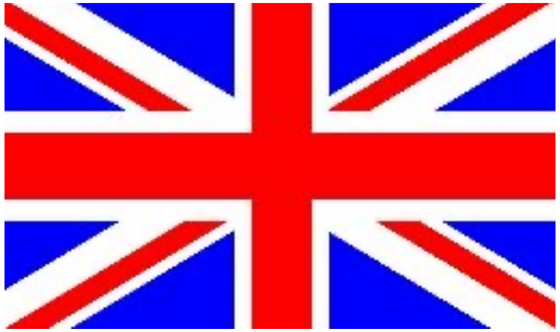
Classical Gold Standard

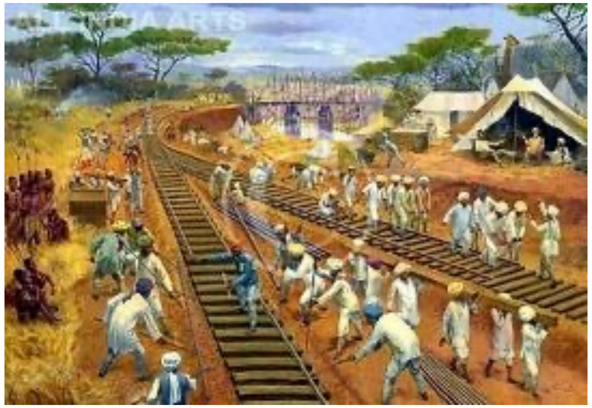






Classical Gold Standard





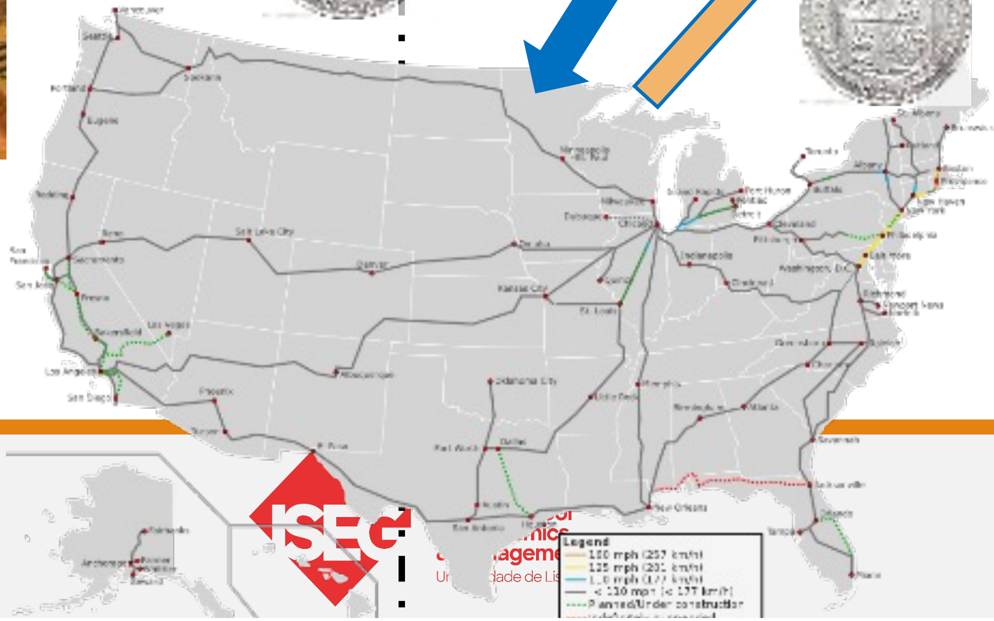


Table 1.4 Destination of Foreign Investment, 1870-1913				
		UK	France	Germany
Europa	*Russia*	*3,4%*	*25,1*	*7,7%*
	Ottoman Empire	*1,0%*	*7,3%*	*7,7%*
	Austria-Hungary	*1,0%*	*4,9%*	*12,8%*
	Portugal and Spain	*0,8%*	*8,7%*	*7,2%*
	Itály	*1,0%*	*2,9%*	*17,9%*
	Outros	*2,5%*	*12,2%*	*0*
	Total	9,7%	61,1%	53,3%
New World (except S and C América)	*USA*	*20,5%*	*4,4%*	*15,7%*
	Canada, Australia & NZ	*20,5%*		
	Total	41,0%	4,4%	15,7%
S and C América	*Brazil & Argentina*	*12,8%*		
	Total	17,7%	13,3%	16,2%
África	Total	9,1%	7,3%	8,5%
Ásia	*India*	*7,8%*	*4,9%*	*4,3%*
	Japan	*1,9%*	*0*	*0*
	China	*1,8%*	*0*	*0*
	Total	11,5%	4,9%	4,3%
Resto	Total	11,0%	9%	2%
TOTAL		100%	100%	100%
Colónias		16,9%	8,9%	2,6%

Main capital exporters, 1870-1913

	England		France	Germany
	Internal Savings/GDP	External Investment / Internal Savings		
1870-79	12,3%	32,5%	23,9%	10,2%
1880-89	12,2%	38,5%	5,1%	18,8%
1890-99	11,0%	30,9%	16,5%	12,1%
1900-4	12,6%	29,4%	19,1%	8,3%
1905-14	13,1%	49,6%	17,3%	7,5%
% total global investment	41,8%		19,8%	12,8%

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Fonte: Daudin *et al*, p. 10

Initiative

This is about essentially private investors who sought countries with

- Gold standard
- High interests/ high capital returns
- Sound Institutions
- Natural Resources

Impacts

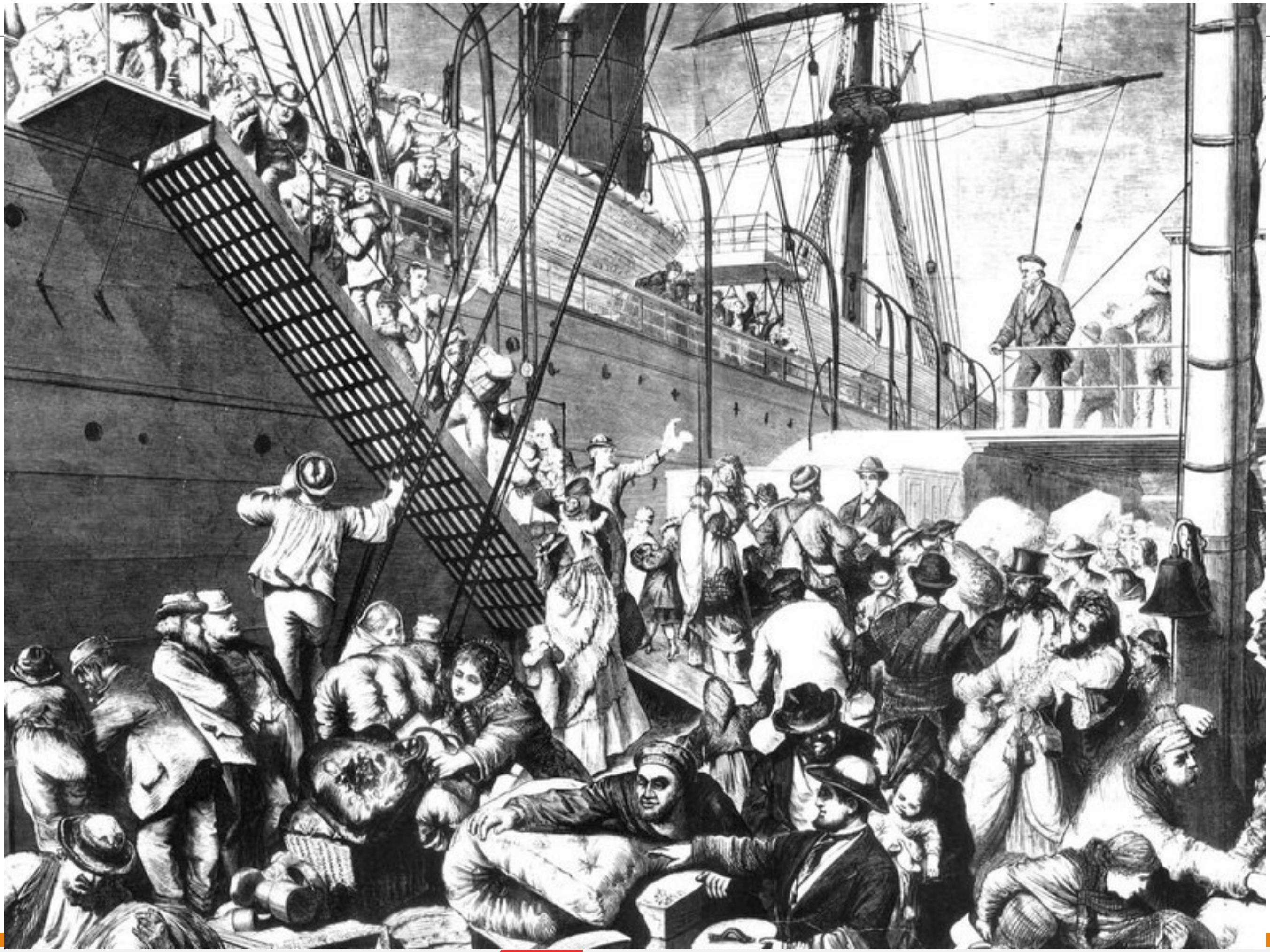
Benefits to capital exporting countries

- *"[British] overseas portfolio investments yielded a higher realized return than domestic portfolio investments between 1870 and 1913"* Daudin et al, p. 23

Benefits to capital importing countries

- *"Capital imports after 1870 served to make Swedish capital stock 50% bigger than it would have been in their absence, increasing Swedish real wages by 25%"* Daudin et al, p. 22

Mass Economic Migration



New and Old Worlds (Pop. Mill.)

	Portugal	Brazil	UK	USA
1820	3,2	4,6	10,4	9,6
1870	4,0	9,9	21,3	38,6
1900	5,0	17,4	30,1	76,2

New and Old Worlds (Pop./km2)

	Portugal	Brazil	UK	USA
1820	34,8	0,6	80	1,0
1870	43,5	1,2	163,8	3,9
1900	54,3	2,1	231,5	7,8

<table>
<tr><th colspan="7">Table 1.5 Crude Emmigration rates (in 1/1000 of average pop.)</th></tr>
<tr><th></th><th>1851-60</th><th>1861-70</th><th>1871-80</th><th>1881-90</th><th>1891-1900</th><th>1901-10</th></tr>
<tr><td>Itály</td><td></td><td></td><td>10,5</td><td>33,6</td><td>50,2</td><td>107,7</td></tr>
<tr><td>Norway</td><td>24,2</td><td>57,6</td><td>47,3</td><td>95,2</td><td>44,9</td><td>83,3</td></tr>
<tr><td>Ireland</td><td rowspan="2">58,0</td><td rowspan="2">51,8</td><td>66,1</td><td>141,7</td><td>88,5</td><td>69,8</td></tr>
<tr><td>Gret-Britain</td><td>50,4</td><td>70,2</td><td>43,8</td><td>65,3</td></tr>
<tr><td>Portugal</td><td></td><td>19,0</td><td>28,9</td><td>38,0</td><td>50,8</td><td>56,9</td></tr>
<tr><td>Spain</td><td></td><td></td><td></td><td>36,2</td><td>43.8</td><td>56,6</td></tr>
<tr><td>Finland</td><td></td><td></td><td></td><td>13,2</td><td>23,2</td><td>54,5</td></tr>
<tr><td>Áustria-Hungria</td><td></td><td></td><td>2,9</td><td>10,6</td><td>16,1</td><td>47,6</td></tr>
<tr><td>Sweden</td><td>4,6</td><td>30,5</td><td>23,5</td><td>70,1</td><td>41,2</td><td>42,0</td></tr>
<tr><td>Denmark</td><td></td><td></td><td>20,6</td><td>39,4</td><td>22,3</td><td>28,2</td></tr>
<tr><td>CH</td><td></td><td></td><td>13,0</td><td>32,0</td><td>14,1</td><td>13,9</td></tr>
<tr><td>Bélgium</td><td></td><td></td><td></td><td>8,6</td><td>3,5</td><td>8,1</td></tr>
<tr><td>Holland</td><td>5,0</td><td>5,9</td><td>4,6</td><td>12,3</td><td>5,0</td><td>5,1</td></tr>
<tr><td>Germany</td><td></td><td></td><td>14,7</td><td>28,7</td><td>10,1</td><td>4,5</td></tr>
<tr><td>France</td><td>1,1</td><td>1,2</td><td>1,5</td><td>3,1</td><td>1,3</td><td>1,4</td></tr>
</table>

Impact

- Increase of real wages in labour-exporting countries, as poorer, uncompetitive workers leave the labour market
- In the labour-importing countries, increase of labour supply allows for rapid agrarian and industrial growth

	Δ Active Pop. 1870-1913	Δ Real wages 1870-1913	Real wages / british real wages	
			1870	1913
Ireland	-45%	32%	73%	92%
Itály	-39%	28%	48%	95%
Norway	-24%	10%	40%	56%
Fonte: Daudin et al, p. 21.				