


ECONOMIC AND BUSINESS HISTORY 25/26

LECTURE 11 – FROM DEGLOBALIZATION TO DEPRESSION



Lisbon School of Economics & Management

1

PLAN



1. Winner's Curse



2. Crash

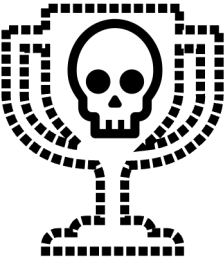



3. Great Depression

ACH @ ISEG 2

2

1. Winner's Curse





Lisbon School of Economics & Management

ACH @ ISEG


3

WHO WON WWI?

Shares of the World Industrial Output (1913 and 1926-9)

	USA	Germ	GB	France	Russia/ USSR	Sweden	Japan	India	Rest of the W
1913	35,8	14,3	14,1	7,0	4,4	1,0	1,2	1,1	21,1
1926-9	42,2	11,6	9,4	6,6	4,3	1,0	2,5	1,2	21,2

Kenwood e Lougheed 1999: 173.



Lisbon School of Economics & Management

ACH @ ISEG

4

The Spoils of Victory

- Germany sells capital goods (locomotives, trains, ships) and stocks (incl. German-financed US railway companies) to the US in order to obtain dollars to pay for the Reparations imposed in 1919.
- In 1917, the confiscation of all 5,000 German patents and their compulsory licensing (e.g., Aspirine) transferred the technological edge in chemistry and steel sectors from Germany to the US
- Also, governments (not so much firms) sought US capital markets for financing
- Financial and physical now capital abundant in the US



5

Large Firms

- Capital stocks and the conquest of markets lost by the Europeans contribute to enlarge the firms
- The US vast internal market, as well as a large amount of wealthy consumers meant that size was an advantage
- Assembly lines and other efficiency-enhancing technologies (pre- and post-1918) contribute to the rise of the large firms, like Ford and GM








6

Largest industrial firms, 1917 and 1930 (by Stock value in current USD)

	USA		GERMANY		UNITED KINGDOM	
	1917	1930	1919	1930	1913	1929
1 st	2.449,5	2.394,5	278,2	641,4	142,6	510,9
2 nd	574,1	1.770,9	199,4	634,1	110,2	497,7
3 rd	381,5	1.315,8	128,9	508,3	77,0	138,0
4 th	314,1	820,6	107,7	375,6	66,2	112,5
5 th	306,3	801,1	101,0	290,6	53,3	100,2
25 th	143,3	308,5	28,8	58,8	18,6	25,7
50 th	90,3	174,7	17,7	33,5	9,8	15,6
100 th	43,6	80,1	9,3	16,5	5,6	8,9
200 th	24,4	36,1	4,4	6,3	3,0	3,8



7

Domestic Economy: firms and market


- US market remained competitive, even as large firms emerged
- Especially, because of US gov regulation issued in the late 19th cent, to prevent the firms' "coordination strategies" :
 - CARTEL – price setting agreements, by competitors
 - TRUST – union of competing businesses and creation of a mother company, owned in shares by the older owner (Trustees)
- Nevertheless, Prevalence of large firms with good access to the capital markets leads to the spread of :
 - HOLDINGS – business created to control other businesses and groups of businesses



8

Domestic Economy: families

- With WWI, USA received more physical and financial capital and its vast increases in productivity allowed vast market segment to emulate the high class of the *Belle Époque*
 - High-tech durables, like cars and domestic appliances (iron, radio, toaster, fridge...) became mass-consumption items



THE NEW 154 GENERAL ELECTRIC REFRIGERATOR has the standard of beauty, utility and convenience. Please take to food, use for women, operate quiet.

9  Lisbon School of Economics & Management

9

The Roaring Twenties




10  Lisbon School of Economics & Management

10

For the others: the Spoils of Defeat


- The great sacrifices demanded from the working class and from women during WWI made **universal** (all men, regardless of status, and also all women) **voting** inevitable
- This meant a shift from capital-friendly to labour-friendly institutions
- Concerns with unemployment led countries to become protectionist
- Also, state budgets became larger and more redistributive (pensions, war debts, state-owned firms)





11  Lisbon School of Economics & Management

11

2. Crash



12  Lisbon School of Economics & Management ACH @ ISEG

12

The Roaring 20s were great for the US, right?

Yes, but ...

- With WWI-induced protectionism, the US was 'leading alone'
- Worker-influenced European govts try to protect jobs
- Also, the world retaliates on US 'unfair' competition (USA continued to be strongly protectionist, even after 1918, when it had clear comparative advantages in many fields)
- Non-US firms adapted to domestic, not foreign, demand and hence not as innovative as before
- MOST OF ALL, Fast growth ► high savings ► low return rates!!!
- In the 1st Globalization, this led to the outflow of capitals to capital-poor countries

13



Lisbon School
of Economics
& Management

Deglobalization in the World Capital Markets

- Unlike what happened to Great Britain in 1820-1914 period, American growth was limited by weak Globalization
- With WWI, USA became a creditor nation and its capital market became the most important in the world
- European stock and fixed capital -> productivity growth -> high growth rates
- Abundant (but country-tied) capital -> low return rates from investment

14



Lisbon School
of Economics
& Management

13

14

Deglobalization and the 1929 Crash

- There was a brief period of re-globalization from 1925 to 1928 (with American investment in S America and Central Europe)
- However, giving in to pressures from the American banks, in 1928 the American FED suddenly RAISED its discount rate and LIMITED outward capital flows
- US capital-owners did not export their capital and, instead, brought it back from European and S American countries
- This decisively contributed led to a BUBBLE in the US capital market, invaded a glut of returning capital (not to mention industrial crises in Europe, notably Germany...)

15



Lisbon School
of Economics
& Management

15

Post-1929 Financial Collapse

This bubble popped in October 1929 (Black Thursday 24; Black Tuesday 29)

Other factors were at play (negative expectations about growth and some holdings were overpriced by the market and their dealings were not transparent)

However, the (very small) private US banks were deeply involved in the stock market

As such, Crash led to the public suspicion regarding banks

- Frequent "Bank Runs" followed
- Broken banks 1929-22 (c. 6000; c. 25% of existing)

What were the consequences?



16



Lisbon School
of Economics
& Management

16

3. Great Depression

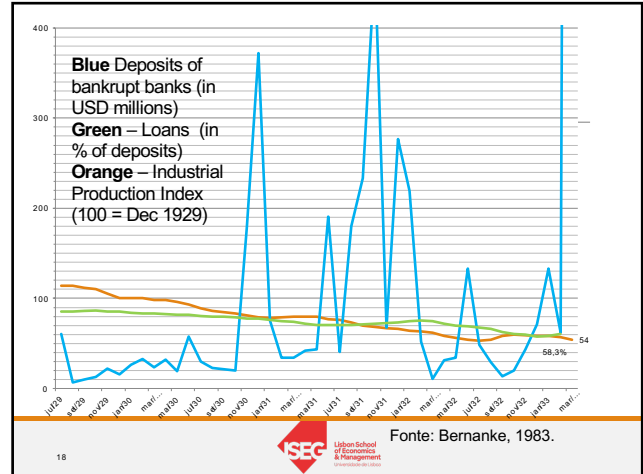


17

ISEG Lisbon School of Economics & Management

ACH @ ISEG

17



18

From Bank Runs to the GD

- Bank Runs severed the link between savings and investment
- Banks try to keep liquidity by rationing loans, starving companies of capital
 - Instead of keeping just the fractional reserves (~13%), banks kept large (peak: ~42% Winter 32)
- As investment faltered, jobs were destroyed and firms did not hire

19

ISEG Lisbon School of Economics & Management

19

GD in the US

Ano	FED Discount Rates	GDP growth	Unemployment rate
1928	4,2	1,1	4,4
1929	4,8	6,1	3,2
1930	3,9	-8,9	8,7
1931	2,9	-7,7	15,9
1932	3,5	-1,3	23,6
1933	3,8	-2,1	24,9
1934	2,1	7,7	21,7
1935	2,0	7,6	20,1
1936	2,0	14,2	16,9
1937	1,8	4,3	14,3
1938	1,5	-4,0	19,0
1939	1,5	8,0	17,2
1940	1,5	7,7	14,6
1941	1,5	18,2	9,9

Abrupt, deep and long recession in 1930-33

High unemployment

Even the recovery of the GDP (complete by 1936) did not eliminate unemployment

Low expectations:

- Consumers
- investors

20

ISEG Lisbon School of Economics & Management

20

Unemployment and high interest rates increase negative expectations

The diagram features two large circles: a reddish-brown circle on the left labeled 'Consumers' and a brown circle on the right labeled 'Investors'. Between them are two orange 'X' shapes, each with the word 'Stim' written inside. Arrows point from these 'X' shapes towards the 'Consumers' and 'Investors' circles, suggesting a stimulative effect on both groups.

21

And the initial US response to the GD was ...

- o More protectionism !
- o US Congress tried to protect American agriculture with higher tariffs (*Smoot-Hawley* 1930 tariff that was being discussed in ... September 1929)
- o US government approves Fresh limits for capital outflows
- o Understandably, new restrictions on immigration
- o The main negative effect of protectionism was the political impact:
 - o Other countries retaliated and increased their tariffs and approved more restrictions on American products (thus hurting American exports and employment)

22

World Spread of the GD (trade)

Countries retaliated the US adopted a protectionist policy:

- o The 1930s saw a wave of tariff increases (that aggravated the WWI-era increases)
- o The result is further Deglobalization and less exploitation of comparative advantages
- o In the 1930s, politics everywhere turned to social concerns, rather than economic growth

Country	Average Ad Valorem Equivalent Tariffs	
	1920-1929	1930-1940
United States		
Total imports	13.0	16.6
Dutiable imports	35.1	44.5
Other countries		
Trade-Weighted Average	9.9	19.9
Canada	13.4	15.2
France	7.1	21.0
Germany	7.2	26.1
Italy	4.5	16.8
United Kingdom	9.8	23.2

23

World Spread of the GD (finance)

- o As the US controlled its capital outflows, countries had little to benefit from keeping the gold standard
- o All countries abandoned gold in 1933
- o Devaluations everywhere, increasing exchange rate risk and protectionism
- o The result was further Deglobalization
- o Non-capitalist economies, however, seemed to be immune to the problems of overproduction and unemployment

24

Distribution of the World Industrial Output in 1913 and 1926-9 (%)

	1913	1926-9	1936-8
USA	35,8	42,2	32,3
Germany	14,3	11,6	10,7
GB	14,1	9,4	9,2
France	7,0	6,6	4,5
URSS	4,4*	4,3	18,5
Sweden	1,0	1,0	1,3
Japan	1,2	2,5	3,5
India	1,1	1,2	1,4
Rest	21,1	21,2	18,7

25

Lisbon School
of Economics
& Management

Kenwood e Lougheed 1999: 173.

25

'Big Push' Industrialisation and Central Planning



- ✓ The URSS, after experiences with 'war communism' and New Economic Policy (which included some private property in agriculture), propagated worldwide the idea that Socialism as an economic system to promote development
- ✓ Need for a 'Big Push'
- ✓ Total state ownership of the means of production (factories and agricultural lands)
- ✓ Output levels decided by central planning.
- ✓ Priority was given to capital-intensive sectors and in terms of economic growth

26

Lisbon School
of Economics
& Management

26