






ECONOMIC AND BUSINESS HISTORY 25/26


LECTURE 9 – THE LIBERAL GLOBALIZATION



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The Liberal Globalization



-  The Belle Époque
-  Railways
-  The Modern Firm
-  Belle For whom?



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1. Belle Époque



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The Belle Époque

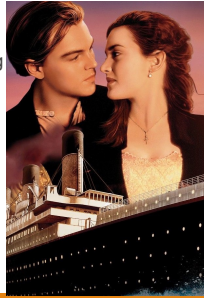


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Belle Époque

- Global Capital Flows, increasing returns of capital-holders
- Multinationals and large modern firms, helping capital-holders making the most of market conditions
- Demand for capital meant high returns w/ foreign and domestic portfolios
- Labour-saving Innovations favouring entrepreneurs rather than workers



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Belle Époque ♥ Liberal State

During the *Belle Époque*, the state became close to what Adam Smith envisaged as the **Liberal State**:

State had only three duties:

- Defense of sovereignty
- Justice and protection of property rights
- Public works (only if not profitable in market conditions)

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The Liberal State

Liberal State also went farther than what A. Smith anticipated by allowing for markets to cross borders:

- Voluntary reduction of tariffs
- Allowing for migration out and inflows
- Favouring inbound capital out and inflows (with the gold standard)

This implied that the state did not protect domestic interests (firms and workers) from foreign competition and capital flight

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2. Railroads and the Modern Firm



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Why so important?

- MEG started in textile and ironworking firms in the eighteenth century
- Machinery and other investments were very often financed by the firm owners (remember Arkwright)
- Rapid returns meant that short-term credit was enough
- On account of their scale, 1840s and 1850s railways, however, posed different problems

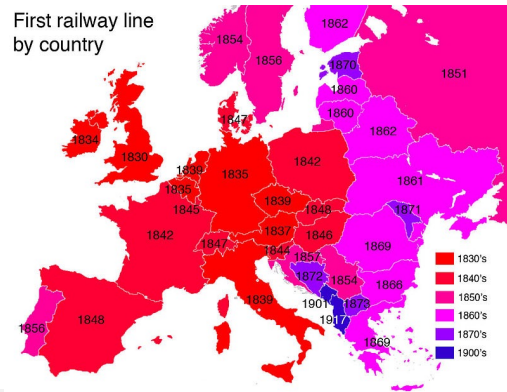
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First railway line by country



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Why so important? (2)

- Their very large dimension called for high levels of investment
 - Need for larger stocks of physical capital (rails, stations cars and locomotives)
- Complexity of operations (tickets, traffic coordination, complexity of services, multi-divisions)
 - Need for a new type of organizaions: the modern firm
- Because of these 2 features, railroads are the **cradle of the modern firm**

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	1840	1880	1920
world (km)	8,845	357,395	1,086,107
World = 100	100	100	100
GB	27%	7%	3%
France	5%	7%	4%
Germany	6%	9%	5%
USA + Canada	52%	46%	43%
Russia	1%	5%	7%
S America	2%	3%	9%
Ásia	0	5%	9%
África	0	1%	4%
Austrália	0	2%	4%

Source: P. Léon, (ed), *História Económica e Social do Mundo*, Vol. IV, T. II, p.133

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USA, largest companies, 1912

Company	Sector	Country	No. of employees
United States Steel Corporation	Primary metals	USA	221,025
Pennsylvania Railroad Company	Railways	USA	148,994
American Telephone & Telegraph Co.	Telecommunications	USA	140,789
Canadian Pacific Railway Company	Railways	Canada	96,000
Singer	Machinery	USA	91,444
Paris-Lyon-Mediterranean (Chemins de Fer)	Railways	France	90,100
Great Indian Peninsula Railway	Railways	India / GB	89,749
London & North Western Railway	Railways	G Britain	82,529
Siemens	Machinery	Germany	81,235
Great Western Railway Company	Railways	G Britain	75,589
Krupp	Machinery	Germany	73,405

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Traditional Firm

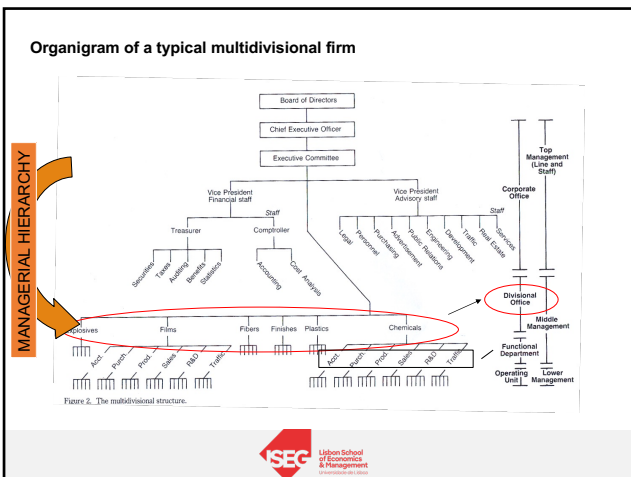
- The emergence of the modern firm marked a large contrast Capital and property are united in the same person
- Firm grows by labour productivity, typically by adding more (physical or human) capital per worker
- As a result, the firm is a Price Taker, thus contributing to lower prices and hence increase the 'Wealth of Nations'.



A 18th-cent. pin factory, Adam Smith's example of how the division of labour multiplied productivity by a very large factor

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'Modern Firm'?

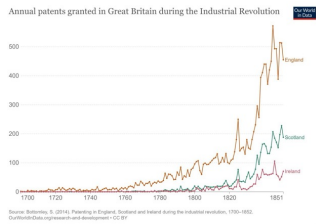
- It has a multiunit or multidivisional structure
 - Specialization within the firm
 - Complexity of operations
- It has a 'visible hand'
 - Managerial hierarchy which understands price mechanisms turning the firm into a Price Maker
 - With managers, businesses aim for growth and not simply profit
- Separation of ownership and management
- Reliance on capital markets
- Higher capacity for investment and innovation

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'Modern Firm': why so important?

- Through R&D, firms channel capitals obtained with growth to create innovation
- With firms, innovation becomes more intense and almost predictable



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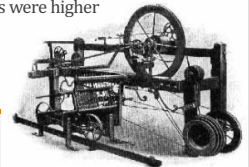
Invention & Innovation

Under traditional firms, innovation depended on individual entrepreneurs.

A good illustration is the Authomatic Loom by Cartwright, 1789.

It was inspired by the French genius Vaucanson, who had invented a silk loom in 1745. It was developed by order of king Louis XV for 'helping' the French silk industry. Yet, the great manufacturers rejected, because it was more expensive than the wages it saved.

In his spare time, Reverend Cartwright was able to create and patent a loom that became widely spread in England, because wages were higher



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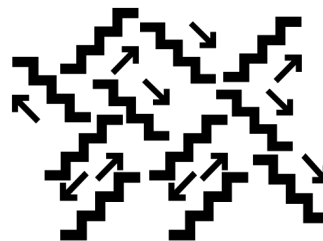
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3. Belle Époque: for whom?



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Belle Époque For Whom?

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Belle Époque: for whom?

- Global Capital Flows, increasing returns of capital-holders
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The Condition of the Working Class in England (Engels, 1844)

"The smaller peasants in Germany are usually poor, and often suffer want, but they are less at the mercy of accident, they have at least something secure. The proletarian, who has nothing but his two hands, who consumes today what he earned yesterday, who is subject to every possible chance, and has not the slightest guarantee for being able to earn the barest necessities of life, whom every crisis, every whim of his employer may deprive of bread, this proletarian is placed in the most revolting, inhuman position conceivable for a humanbeing."

cit. in Pamuk e Van Zanden 2010, p. 218)

F. Engels, a German industrial with business ties with England, denounces:

- Job insecurity
- Extremely poor health conditions
- Child labor
- Criminality and Dissolution of family life

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The Communist Manifesto

Written in 1847 and published in 1848, at a period of social-unrest throughout all of Europe

Marx and Engels argued that the workers or Proletarians live in the worst conditions imaginable: *In proportion as the bourgeoisie, i.e., capital, is developed, in the same proportion is the proletariat, the modern working class, developed – a class of labourers, who live only so long as they find work, and who find work only so long as their labour increases capital. These labourers, who must sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market.*

(...) the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for maintenance, and for the propagation of his race. (...)

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Industry in a Market Economy = Oppression

- With more productive agriculture, there is little demand for the labour of the proletarian
- With the introduction of industry, proletarians can only obtain their subsistence in this sector
- However, this is a very competitive sector, forcing capitalists to press wages down and whenever possible replace them with technology
- Also workers face the risk of unemployment, leading them to decreases wage demands
- As such, Mark and Engels believe that workers gace their worse condition ever
- Does this theory fit with the data?



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Did wages decrease to subsistence levels?

In the *Manifesto*, the growth industry implies the decrease of the real wage

Real Wages = nominal wage / CPI (Consumer Price Index or basket)

Why unskilled labourers?

- The most vulnerable to changes in the labour market
- Their wages represent the pure value of labour (unskilled = no human capital included)

This outcome is observable if we look at the **Real Wages** of unskilled laborers

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Real Day Wages, UK

DATAS	GDPpc (annual growth rate)	Real wages (annual growth rate)		
		Feinstein 1998	Allen 2001	Clark 2006
1780-1820	25%	14%	12%	35%
1820-50	33%	20%	4%	13%
1850-70	37%	9%	20%	24%

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Evolution of the Real Wage (UK)

Despite adverse forces in the labour market and no real social protection, real wages **did** grow!

- “wages did not decline in the face of rapid population growth (...). In previous periods (...) rapid population growth had resulted in a strong decline in real wages” (Pamuk e v. Zanden, 225)

However, they grew at a lower pace than the GDPpc (except for 1780-1820, according to Clark 2006)

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Real Wages vs Other Indicators

“Real Wages” is an indicator with methodological and theoretical shortcomings:

- Uncertainty in the composition of the price index and commodity baskets
- Based on DAY WAGES, not annual income
- They do not capture directly ‘welfare’ or ‘well-being’

Living Standards data:

They have the advantage of having Normal Distribution and/or reflecting the median individual:

- Biometric Data;
- Average Life Expectancy at birth;
- Literacy;

Life Expectancy at birth

	1820	1870	c. 1913
GB	40	41	53,5*
France	37	42	51,5
Germany	32	36	49,0
Holland	32	37	56,1
Sweden	37	45	58,6
Italy	30	33	48,4
Spain	30	34	41,5
Poland	29	32	42
Turkey	27	31	n.a.
Russia	25	30	31,5

England, industrialised in 1820 had the highest LiEx;

Germany and France saw their LiEx increase during industrialization.

LiEx also increased in non-industrialised advanced economies, like Holland or Sweden;

However, LiEx of control group (non-advanced countries: Spain, Poland, Turkey, Russia) also increased.

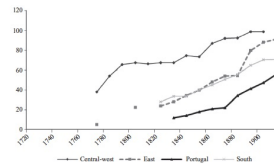
Literacy (variable = % of adults who can sign)

	1820	1870
GB	53	76
France	38	69
Germany	65	80
Holland	67	81
Sweden	75?	80?
Italy	22	32
Spain	20	30
Turkey	6?	9?
Russia	8	15

In G Britain, France and Germany, literacy increased during industrialization,

This also happened to the control group (Spain, Turkey and Russia)

This can be explained to industrialization itself (which demanded better skills), state efforts (the case of Portugal explains this a *contrario*)



Literacy (W, E and S Europe)

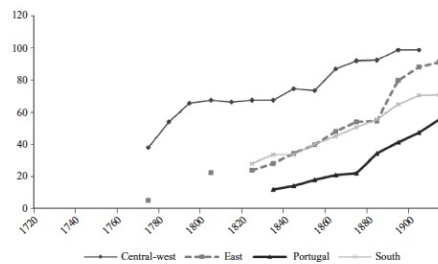
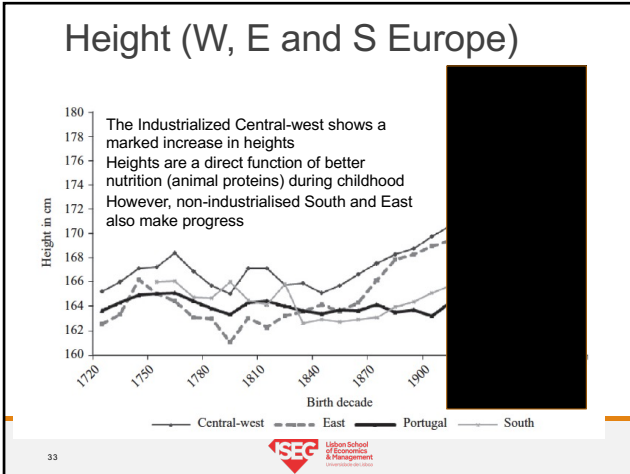


Figure 7. Panel B: Literacy in Europe late eighteenth to early twentieth century, by birth decade

Note: Central-west: Germany, Austria, the Netherlands, the UK, Ireland, France, Sweden. East: Russia, Poland, and Hungary.

South: Italy and Spain.

Source: Portugal and Spain: Tortella, 'Economic retardation'. Spain: Carreras and Tufunell, *Historia económica*; Griff, *Legacies*. Italy: Flora, *State*; Russia: Mironov, 'Literacy'; *Russian Census 1897*. Hungary: Tóth, *Literacy*. Poland: *Нормы всеобщей грамотности населения Польской империи 1897*; United Nations Demographic Yearbook 1963. Austria: Griff, *Legacies*. Germany: Hoffmeister, Prass, and Winnies, 'Elementary education'. France: Gillis, 'Literacy'. Sweden: Johansson, 'History'. Czech and Slovak lands,



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Belle Époque? For whom?

- As MEG developed, workers did not fail to acquire better real wages and, overall, living conditions
- This happened in the industrial leaders (UK, France) and other advanced countries (Holland, Sweden) and also in peripheral countries (Turkey, Russia), hinting that the benefits of Globalization were not limited to Europe or the North Atlantic (data for Africa and Asia missing)
- However, inequality rose, contributing to social tensions and criticism of industrialisation

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