ECONOMIC AND BUSINESS HISTORY 26/27

LECTURE 7 – GLOBALIZATION: FACTOR FLOWS

1. Foreign Investment

2. Labour Flows

1 Foreign Investment

Gold sovereign of 1876; weight in pure gold: 7,32 grams

Foreign Investment

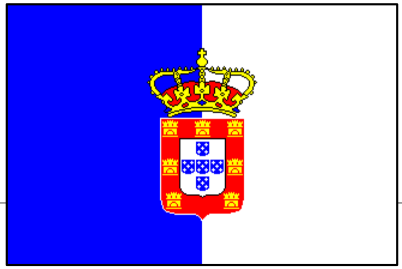
Negligible until 1870

- a) High exchange rate risk
- b) potential investors discouraged by governments with excessive borrowing and, because of this, devaluations

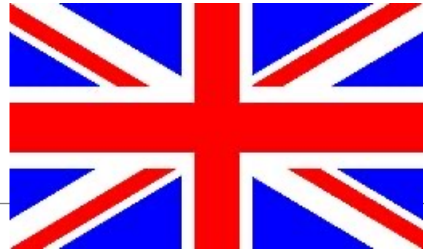
Adoption of the gold standard from 1871 throughout the world (Portugal since 1854; England de facto since 1821) changed this

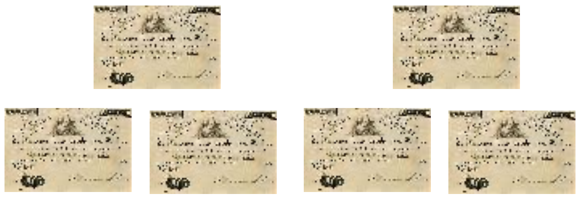
Gold standard implied that national currencies were convertible into gold. Thus

- a) no exchange rate risk
- b) with devaluation impossible, governments limit borrowing



Classical Gold Standard



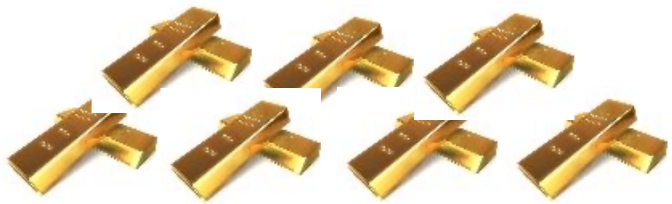


1000 réis
↔
1,626 g Au

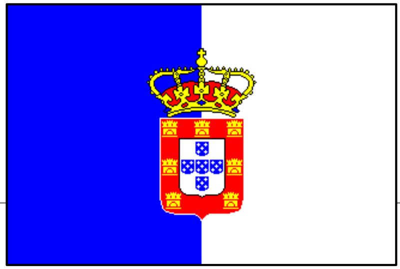
ISSUING BANKS

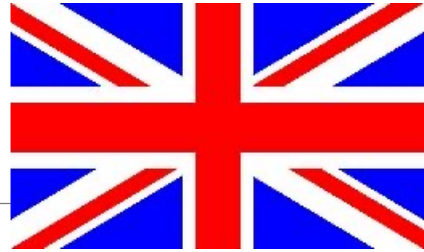
1 pound
↔
7,32 g Au

ISSUING BANKS



Classical Gold Standard





1 £ ↔ 1000 rs

7,32/1,626

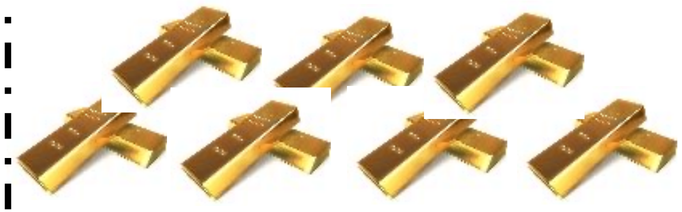
1 £ ↔ 4.500 rs

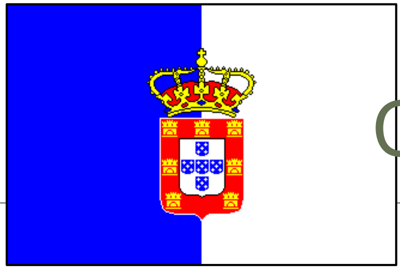
1000 rs ↔ 1,626 g Au

BANKS

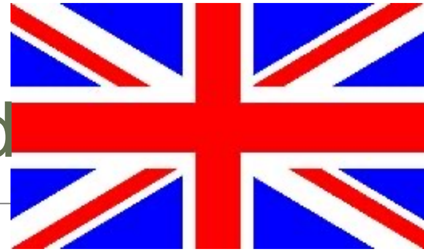
1 £ ↔ 7,32 g Au

BANKS





Classical Gold Standard



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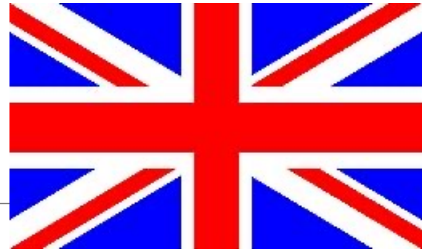
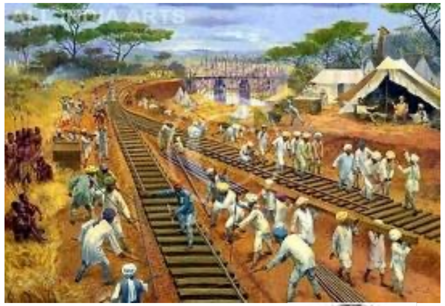
Main capital exporters, 1870-1913

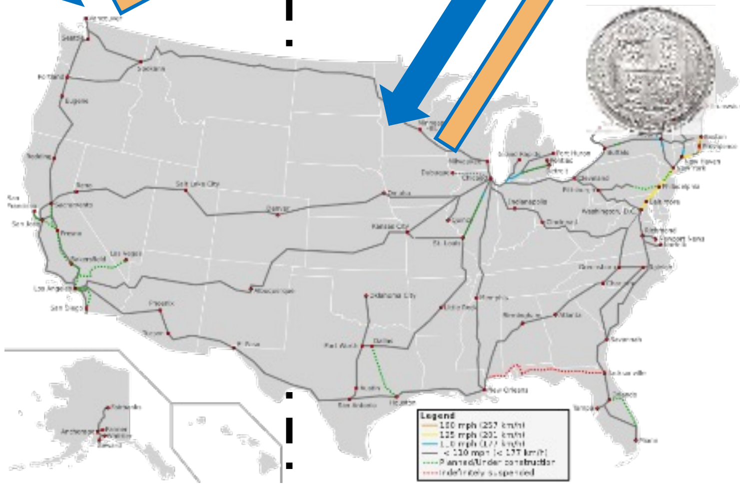
	England		France	Germany
	Internal Savings/GDP	External Investment / Internal Savings		
1870-79	12,3%	32,5%	23,9%	10,2%
1880-89	12,2%	38,5%	5,1%	18,8%
1890-99	11,0%	30,9%	16,5%	12,1%
1900-4	12,6%	29,4%	19,1%	8,3%
1905-14	13,1%	49,6%	17,3%	7,5%
% total global investment, 1870-1914	41,8%		19,8%	12,8%

Fonte: Daudin *et al*, p. 10

Classical Gold Standard







Initiative

Foreign investment in 1870-1914 was essentially conducted by private investors who sought gold-standard countries with

- High interests/ high capital returns
- Natural Resources and/or productive agriculture

A share of French foreign investment was influenced by political choices (esp. Russian railways), but overall capital flows were dictated by the preferences of privates, not states (see low % of investments in colonies)

Table 1.4 Destination of Foreign Investment, 1870-1913				
		UK	France	Germany
Europe	*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%*
	Italy	*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 America)	*USA*	*20,5%*	*4,4%*	*15,7%*
	Canada, Australia & NZ	*20,5%*		
	Total	41,0%	4,4%	15,7%
S and C America	*Brazil & Argentina*	*12,8%*		
	Total	17,7%	13,3%	16,2%
Africa	Total	9,1%	7,3%	8,5%
Asia	*India*	*7,8%*	*4,9%*	*4,3%*
	Japan	*1,9%*	*0*	*0*
	China	*1,8%*	*0*	*0*
	Total	11,5%	4,9%	4,3%
Rest	Total	11,0%	9%	2%
TOTAL		100%	100%	100%
Of which colonies		16,9%	8,9%	2,6%

Impacts

Beneficial 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

Beneficial 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

2. Labour Flows

Emigrants by Domingos Rebelo (1926)

Migration Flows

Key flow was from Europe to the New World.

- Strange!! Sending countries were wealthier than receiving countries. Why?
  - Pop density of sending countries very high, meaning that the New World offered lower rents and higher wages
  - New World contained large resources (farmland and mines) that were underexplored for lack of labour
  - Lower density of the New World translated as higher demand for labour
  - Thus, the New World offered better opportunity for increasing incomes: higher wages and lower rents

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

Lisbon School of Economics & Management
Universidade de Lisboa

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 Emigration 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>Italy</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>Austria-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>Belgium</td><td></td><td></td><td></td><td>8,6</td><td>3,5</td><td>8,1</td></tr>
<tr><td>Netherlands</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>
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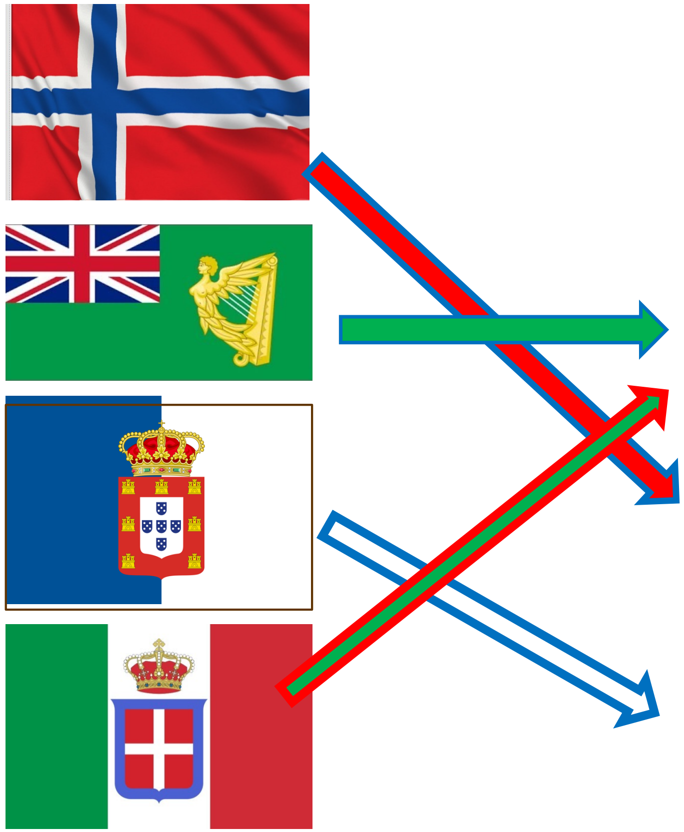
Impact



Δ Active Pop. 1870 – 1913	Δ Real wages 1870 – 1913	Real wages / British real wages 1870	Real wages / british real wages 1913
-45%	32%	73%	92%
-39%	28%	48%	95%
-24%	10%	40%	56%
37%	2%	28%	23%

Sources: Daudin et al, p. 21; Williamson Table 1; Lains, Table 8; Valério 2001, Table 8.2

Impacts

- In the labour-importing countries, increase of labour supply allows for rapid agrarian and industrial growth
- Increase of real wages in labour-exporting countries, as poorer, uncompetitive workers leave the labour market
  - Interesting case of Italy, for which Globalization is the disease and the cure
    - Initially impoverished by the cheap grain imports from the US (especially in the South), southern farmers react by resorting to mass migration to the US (see below)

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