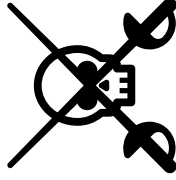


1. The Death of the 1st Globalization



ECONOMIC AND BUSINESS HISTORY 24/25

LECTURE 10 – DEGLOBALIZATION

Why WWI ?



- WWI was the unanticipated effect of an almost-mechanic interaction between the great powers
- Euro Great Powers 'sleepwalked into the war'
 - Fast communications (telegraph) and transport led to the 'urge' to declare war ASAP)
 - Alliances system led to a Domino Effect
 - Few countries had discernible strategic or economic objectives
 - Widespread expectation that war would be short, as war aims were not well-defined

PLAN



1 . Death of the 1st Globalization



2. US Hegemony

War ends: "peace without victory"?



- The military stalemate after Fall 1914 did not lead to negotiations because of German hopes of winning the war (until mid-1918)
- Economic collapse doomed German expectations of victory (see slide 7)
- US entered the war in 1917, aiming at "peace without victory" (President Wilson), claiming that "this is a war to end all wars" and, hence, only a unilateral German surrender would be acceptable

The Versailles Treaty

- Jan 1918 US sets the "Fourteen Points" (including point XI, which stated that a "compensation" was due by the "aggressor")
- 11 Nov 1918 Germans negotiated Armistice **with the US** and accepted the Fourteen Points trusting US promises of "reasonable" compensations)
- After long peace negotiations, Versailles Treaty is signed 28 June 1919
- Main issue: article 231 (Reparations)
- France & England interested in German reparations to pay for the soldier's pensions

The impact of WW1 (1914-8)

The institutions underpinning Globalization wiped out in **28 Jul 1914**:

- Gold standard is suspended and foreign investment flows interrupted (Germany, GB and France were the source of +90% of external investment)
- Commercial navigation was severely reduced (German U-Boats, Royal Navy blockade)
- Migration to the New World stopped immediately (navigation risks, mobilization of soldiers, US restrictions)



Share of Gov Spending in GDP, 1913-18 (% current prices)

	Australia	Canada	France	Germany	UK	USA
1913	5.5	7.0	10.0	9.8	8.1	1.8
1914	5.7	10.0	22.3	23.9	12.7	1.9
1915	9.6	13.1	46.4	43.8	33.3	1.9
1916	14.0	16.5	47.2	50.3	37.1	1.5
1917	17.2	15.7	49.9	59.0	37.1	3.2
1918	17.2	16.9	53.5	50.1	35.1	16.6

Source: Broadberry and Harrison 2005

Who Won WW1?

World Industrial Output (%)

	USA	Germany	GB	France	Russia/ URSS	Sweden	Japan	India	Rest
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 and Loughheed 1999:
173.

The end of the Liberal State

The Liberal state did not survive **World War I**:

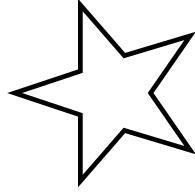
- As great sacrifices were demanded of the population, politics became more democratic, with vote restrictions gradually lifted (including women). Overall, this meant that employment became an important political issue
- Gold standard is not viable (not enough gold reserves, as war led to widespread borrowing, backed by gold)
- Destruction of foreign markets, infrastructure and capital, along with the entry of women in the workforce enhanced the problems of the workers, especially the threat of unemployment and low wages (a problem that could not be solved with migration to the Americas, as beforehand)
- Also, war effort and then the war debts meant the state became larger and, hence, the economy less efficient

Change in Real GDP (1914-8)

	UK	USA	Germany	Austria	Russia	France
1913	100.0	100.0	100.0	100.0	100.0	100.0
1914	92.3	101.0	85.2	83.5	94.5	92.9
1915	94.9	109.1	80.9	77.4	95.5	91.0
1916	108.0	111.5	81.7	76.5	79.8	95.6
1917	105.3	112.5	81.8	74.8	67.7	81.0
1918	114.8	113.2	81.8	73.3	–	63.9

Source: Broadberry and Harrison
2005

2. US Hegemony



US Hegemony



- Until 1918, the USA was a rapid industrialising protectionist periphery, with (proportionally) modest military power
- In 1918, the USA was no longer a net importer of Euro Capital, but an exporter
- In 1918, the USA was no longer a net importer of world manpower

League of Nations



- US victory meant that the US had the keys to 'Reglobalization', as agreed by all
- President Wilson defended a multilateral institution (League of Nations (1920-46), tasked with rebuilding world order, including resuscitating economic liberalism worldwide:
 - Renewal of gold standard, supported by US loans to affected countries;
 - Loans to rebuilding European infrastructure
 - Reduction of multilateral trade deals and low tariffs

Rise of Protectionism

- The American resolute protectionism meant that, unlike the UK in the First Globalization, the economic leader was not a free-trader, encouraging further protectionism abroad
- Restrictions on the free movement of capitals, commodities and workers increased, despite appeals from the League of Nations
- Even in a modified gold standard (as there was limits to convertibility), countries struggled to return to gold, albeit (UK in 1925; France in 1926; Italy in 1928; Portugal in 1932; Germany did not)

Average tariff level	
	1913
France	20
Germany	17
Italy	18
USA	44
	1931
	30
	21
	46
	48

The League of Nations (2)

- Yet, the US did not join the League of Nations,
- As such, the League's potential for recreating Globalization was unfulfilled
- European states and businesses remained starved of credits for reconstruction and recovery
- European businesses could not count with trade liberalization in the US (which was already very protectionist) and lost incentives to liberalize



THE G.A.P. IN THE BRIDGE.