

# ECONOMIC AND BUSINESS HISTORY 24/25

## LECTURE 7 – THE LIBERAL ORDER



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## PLAN



1. The Liberal Order



2. The Belle Époque

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## 1. Liberal Order



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## Globalization

As a model, Globalization implies that borders between countries are not obstacles to economic forces.

If states kept barriers, there would not be:

- trade according to comparative advantage
- capital moving from capital-rich to capital-poor countries
- high-wage economies receiving workers from low-wage ones.



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## Liberal Order

- Globalization flourished what can be called the 'Liberal Order'
- With little coordination (there were no multilateral institutions) or imposition by a superpower, states eventually unilaterally adopted similar institutions (low tariffs, gold standard, bilateral treaties, free movement of labour)
- The result of these non-forced, efficiency-enhancing decisions by states at the international level can be called the 'Liberal Order'

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## Liberal Order ♥ Liberal State

Free international movements of labour, capital and goods can only exist under liberal states.

A truly liberal 'state' is willing to dismantle barriers to these flows:

- Voluntarily dismantle tariffs and other restrictions on trade
- Abolish capital controls (taxes and prohibitions of capital exportation)
- Let go migration controls and accept departure and arrival of migrants

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## GB, Paradigm of the Liberal State

During the First Globalization, Great-Britain was the economic leader and, as such, it was a model for the remaining states:

- Pioneer in migration of free labour
- Voluntary, one-sided liberalization of trade
- Gold Standard (in England and in some British colonies and dominions)

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## GB, Leader of the Liberal Order

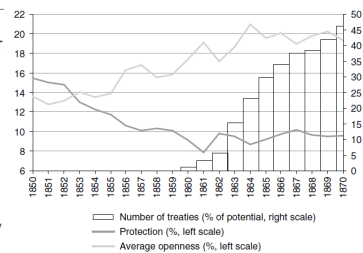
- Britain did not impose its institutions on other countries
- Since the 1820s, national states followed British models:
  - Parliamentary constitutions (allowing for a better representation of interests and control of state decisions)
  - Free-trade policies (uneven, but systematic since 1860)
- After 1871, countries adopted *en masse* the gold standard and, by 1900 all countries apart from China, and some Central American countries, were on a Gold Standard.

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## British liberal leadership in trade: Cobden-Chevalier Treaty(1860)

- In 1859, French and English economists Cobden and Chevalier started lobbying their governments and arguing that trade would avoid military rivalry
- Appointed by their governments as negotiators they drafted a treaty (without the knowledge of the French minister of finances, as they feared protectionist interests)
- The treaty created the 'most favourable nation clause', which prevented discriminatory tariffs
- It set in motion, equivalent bilateral treaties for other countries



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## British liberal leadership in labour flows: Mass Migration

- Despite being an advanced, high-wage economy, GB pioneered mass migration
- Importantly, GB pioneered the abolition of slavery in the Empire (1807) and Slave Trade Worldwide (1833)
- Active government support of early emigration (first, to Canada and S Africa; then US and Australia) for social reasons (to alleviate poorhouses and mitigate social conflict) in 1700-1820
  - After 1830s, Gov stimulate migration as a colonial strategy:
- No controls on emigration by steamboat (1840s), allowing loss of labour force

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Crude Emigration rates (in 1/1000 of average pop.)						
	1851-60	1861-70	1871-80	1881-90	1891-1900	1901-10
Italy			10,5	33,6	50,2	107,7
Norway	24,2	57,6	47,3	95,2	44,9	83,3
Ireland			66,1	141,7	88,5	69,8
Gret-Britain	38,0	31,8	50,4	70,2	43,8	65,3
Portugal		19,0	28,9	38,0	50,8	56,9
Spain				36,2	43,8	56,6
Finland				13,2	23,2	54,5
Austria-Hungria			2,9	10,6	16,1	47,6
Sweden	4,6	30,5	23,5	70,1	41,2	42,0
Denmark			20,6	39,4	22,3	28,2
CH			13,0	32,0	14,1	13,9
Belgium				8,6	3,5	8,1
Holland	5,0	5,9	4,6	12,3	5,0	5,1
Germany			14,7	28,7	10,1	4,5
France	1,1	1,2	1,5	3,1	1,3	1,4

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## British liberal leadership in capital flows: Private initiative

- Foreign investment came nearly entirely from private savings and initiatives
- GB did not impose the gold standard
- Most of the capital flows did not end in colonies or dominions
- Yet, Gov helped dealing with difficult debtors :
  - Example in 1902, after Venezuela defaulted on its sovereign debt, British (and other European) **gunboats** blockaded the country's ports until the government paid up.


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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
	<b>Total</b>	<b>9,7%</b>	<b>61,1%</b>	<b>53,3%</b>
New World (except S and C America)	USA	20,5%	4,4%	15,7%
	Canada, Australia & NZ	20,5%		
	<b>Total</b>	<b>41,0%</b>	<b>4,4%</b>	<b>15,7%</b>
S and C America	Brazil & Argentina	12,8%		
	<b>Total</b>	<b>17,7%</b>	<b>13,3%</b>	<b>16,2%</b>
Africa	<b>Total</b>	<b>9,1%</b>	<b>7,3%</b>	<b>8,5%</b>
Asia	India	7,8%	4,9%	4,3%
	Japan	1,9%	0	0
	China	1,8%	0	0
	<b>Total</b>	<b>11,5%</b>	<b>4,9%</b>	<b>4,3%</b>
Rest	<b>Total</b>	<b>11,0%</b>	<b>9%</b>	<b>2%</b>
<b>TOTAL</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>
Colonies		<b>16,9%</b>	<b>8,9%</b>	<b>2,6%</b>

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## 2. Belle Époque




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## Belle Époque: for whom?

- Global Capital Flows
- Multinationals
- Large modern firms
- High Returns w/ foreign and domestic portfolios
- Innovation
- Demand for Capital, not so much for labour



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## The Condition of the Working Class in England (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 (1848)

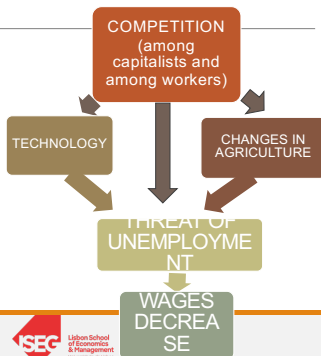
- In proportion as the bourgeoisie, i.e., capital, is developed, in the same proportion is the proletariat, the modern working class, developed – a class of labourers, who live only so long as they find work, and who find work only so long as their labour increases capital. These labourers, who must 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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## The "Satanic Mill"

- According to the Marx & Engels, the tech associated to the Industrial Revolution placed workers in their worst ever condition, making their eventual revolt unavoidable.
- Unconcerned with ideology, Econ Historian must ask: does this fit with the data?



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## Was there a "Satanic Mill"?

- In the *Communist Manifesto*, the development of the industry implies the decrease of the real wages
- This outcome is observable if we look at the [Real Wages](#) of unskilled laborers

[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)

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## Real Day Wages, UK

DATES	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, 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, which may not reflect annual income (this depends on the number of days worked)
- They do not capture directly ‘welfare’ or ‘well-being’

Living Standards data have the advantage of having **normal distribution** and/or reflecting the median individual and, hence, workers:

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

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## 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

\*INDUSTRIALIZATION did not harm health:

- England, industrialised in 1820, had the highest LifEx;
- Germany and France saw their LifEx increase during industrialization.
- LifEx also increased in non-industrialised, fast-growth capitalist economies (blue): Holland, Italy and Sweden;
- Yet: industrialization is not the cause, as LifEx also progressed in the control group.

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Literacy (indicator = % of adult 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

Industrialised GB did not lead in 1820, but continuing industrialisation did not stop progress in Lit

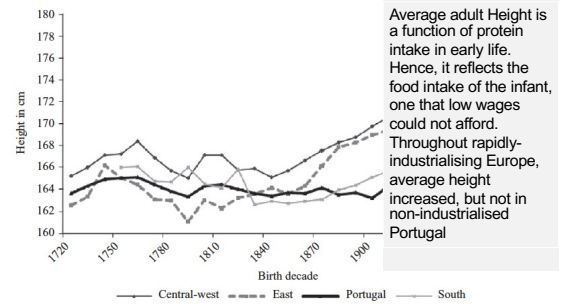
In France and Germany, literacy increased during industrialization.

There was also progress capitalist, fast-growth in non-industrialised countries

Yet: industrialization is not the cause, as Lit also progressed in the control group.

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## Height (W, E and S Europe)



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## Industrialized UK vs The Others

Real Wages in the UK (London series) indeed decreased during the 18th cent (likely because of labour-saving tech). However, they increased after 1820s. Why? Because Globalization allowed workers of industrial countries to: (1) access cheaper goods and (2) migrate

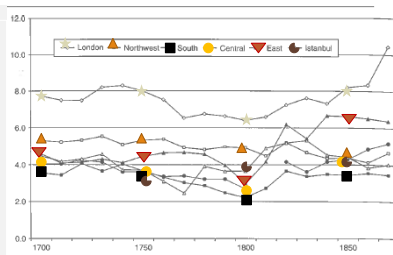


Figure 6.1 Real wages of European unskilled construction workers, 1700-1870 (Allen, 2001; Orléans and Pamiuk, 2002)

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## Conclusion

Despite the fact that the institutions of the Liberal Order were not protective of the workers's interests, real wages and other living standards data show observable improvements across the class divide (in industrialised and non-industrialised countries),

The Globalization elevated the condition of the working class, which benefitted from low prices and the possibility to migrate

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