ECONOMIC AND BUSINESS HISTORY 24/25

LECTURE 6 – GLOBALIZATION: WHAT? WHEN?

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1. What and When?
2. Trade
3. Factor Flows

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1. What and When?

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What?

In Economics, Globalization is the 'Enlargement of Markets to the global scale'.

This implies three flows:
- **Foreign Investment (in financial and fixed capital)**
  - **Capital** moves from countries where its abundant to countries where it is scarce, and where it commands higher **interests**
- **Migrations**
  - **Labour** moves from countries where its abundant to countries where it is scarce, and where it commands higher **wages**
- **Trade with country specialisation**
  - International trade allows that each country identifies its comparative advantage
  - Integration of the world markets of tradable commodities

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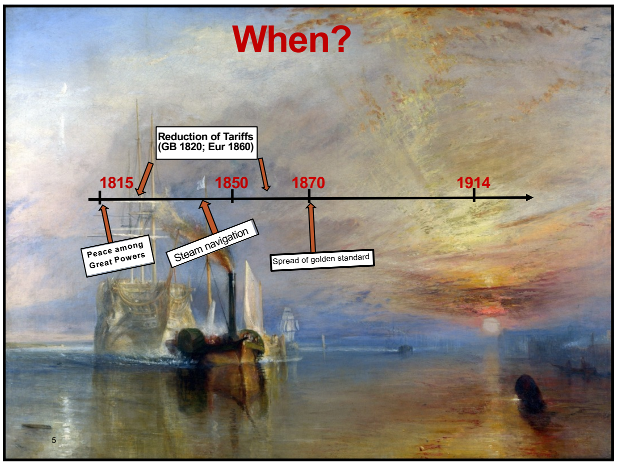

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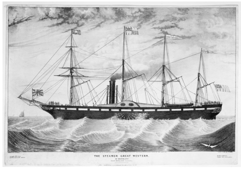
When did the First Globalization start?

- The start of these flows is conditional to a set of institutions and policies that did not exist before circa 1820
- These political and institutional conditions start to take form in 1815 and are completed in 1870:
  - The 1815 defeat of Napoleon and Treaty of Vienna opens up a century of near-perfect peace between the Great Powers, after a century of near-constant wars (1701-1815)
  - Since c. 1820, unilateral removal of tariffs
  - Since c. 1840, steamships cross the Atlantic Ocean
  - Since 1870, countries adopt the Gold Standard
- Thus, between 1870 and 1914 the First Globalization corresponds perfectly to the model (free flows of capital, labour and trade cross the globe)



The Great Western, built in Bristol, the first commercial steamship to cross the Atlantic in 1838

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2. Trade

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World Trade, pre-1820

High transport costs

Mostly limited to high value/volume commodities (ex: spices, tobacco, sugar, diamonds, silk, china...)

Absolute, rather than comparative advantages (Port-Engl is the exception with port wine traded for woollen cloth)

Protectionism in every border

European Empires trade exclusively with the mainlaind

World Trade in mercantilism, means **war**:
- Anglo-Ducth Wars (1652-4; 1665-7; 1672-4; 1781-4)
- Nine Years War (1701-14)
- War of the Spanish Succession (1702-14)
- War of the Austrian Sucession (1740-48)
- Seven Years War (1756-63)
- American Independence (1775-83)
- Napoleonic Wars (1791-1815)

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Voluntary Liberalization

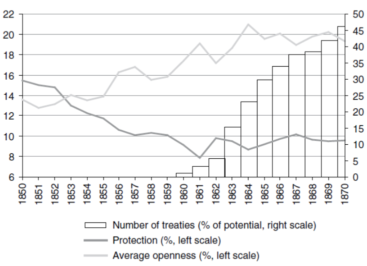
- Free-trade initiatives across Europe
  - Denmark and Holland (small countries) had been open since the early 19th century
  - Pressed by the British public opinion, Parliament approved a series of laws aiming at freeing international trade, just like domestic trade was free
    - 1820, *Navigation Acts* are abolished
    - 1822, Redução das *Corn Laws* (abolished in 1846)
    - 1820s-30s, Gradual decrease of tariffs
  - *Zollverein*, 1833 (customs union among German principalities)

External Trade

Three mains causes for the increase in int'l trade:
- International order ensures peace among Great Powers (since 1815)
- States voluntarily open economic borders (since 1820)
  - Voluntary liberalization in some countries
  - Billateral trade agréments (mostly in Europe) since 1860
- International transport costs decrease (since 1850)

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 billateral treatises for other countries



Exports (million US$1990)

country	1820	1913
Belgium	92	114,540
Spain	137	75,350
USA	251	3,014,510
France	487	302,427
Italy	339	144,753
Switzerland	147	95,991

International Trade (Imp.+Exp./GDP)

	1790	1820	1830	1870	1913
Holland	110%	33%	25,8%	115,4%	179,6%
Denmark		7,5%	17,5%	35,7%	61,5%
UK	24%	21,4%	18,8%	43,6%	51,2%
Germany				36,8%	37,2%
Spain	16%		6,0%	12,1%	22,3%
Europe		13,5%	11,5%	29,9%	36,9%
Europe (extra-European trade)			3,8%	9,2%	13,4%

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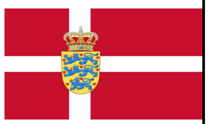
Case study: Denmark



Before 1820, the heavy traders were the imperial powers.

Denmark was very different:

- Small country with no major comparative advantages

- Navy obliterated by the Napoleonic Wars, Norway seceded in 1814

- Small empire: Caribbean colony unprofitable (auctioned and eventually sold to the US in 1852 for 25 USD Mill)

- Trade policy of deliberate liberalization : light import duties for industrial goods and coal

- Shift of capital to agriculture

- Export-Led Agricultural Modernization:
- High-quality, exportable goods
- Dairy and meat sectors
- Steam-powered cream separation

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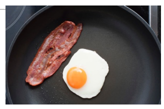
Impact of Trade Openess

Lower tariff rates on industrial imports contributed to the increase in real wages, as foreign, more efficient producers substituted national producers

Without major industrial sectors, agricultural specialization towards animal products.

Denmark's economic development was deeply intertwined with global energy, agrarian and industrial markets.

Growth GDP pc from 1820 to 1914: 2,000 to 6,500 (1990USD)



Technological improvements allowed Danish agricultural exports to be competitive in English prices
Thus Denmark supplied England's wealthy consumers with the 'Full English Breakfast' (introduced in the 1840s).
Denmark captured the market for the growing share of this type of breakfast foods, supplying the UK with 45% of its butter, 39% of the bacon and 9% of the eggs by 1913

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Trade and Growth

- All countries, industralised or nor, take part in the opening of trade
- Non-industrialised countries identify their comparative advantages and export raw materials and agricultural goods, benefitting from low transport costs and liberal tariffs
  - Denmark exporting agr commodities (bacon, butter) to the UK
- New World and non-Western countries specialised in new raw materials
  - African countries exporting raw materials for industry, like palm oil, chocolate, tea, mineralis
  - US exporter of agr. commodities (wheat, bacon, cotton)
- This contributed to growth in globalization-participanting powers, as foreign, more efficient producers substituted national producers

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3. Factor Flows

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International Capital Flows

Until, 1870 foriegn investment was negligible

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

Gold standard implied that national currencies are convertible in gold
- a) low exchange rate risk
- b) balanced budgets and low public debts

Portugal was a pioneer in the adoption of the gold standard, when in 1854, the Portuguese government decided that *reais* were convertible into gold, just like the British pounds

What changed?

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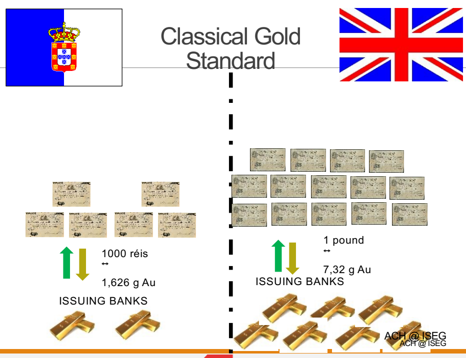
Classical Gold Standard



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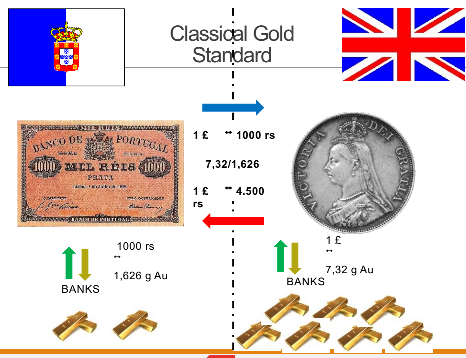
Classical Gold Standard



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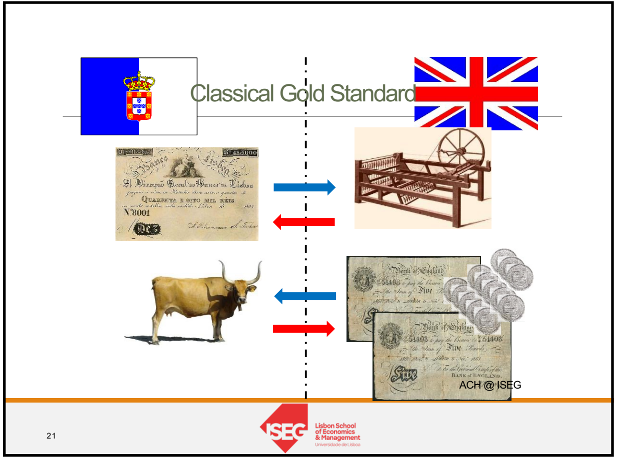

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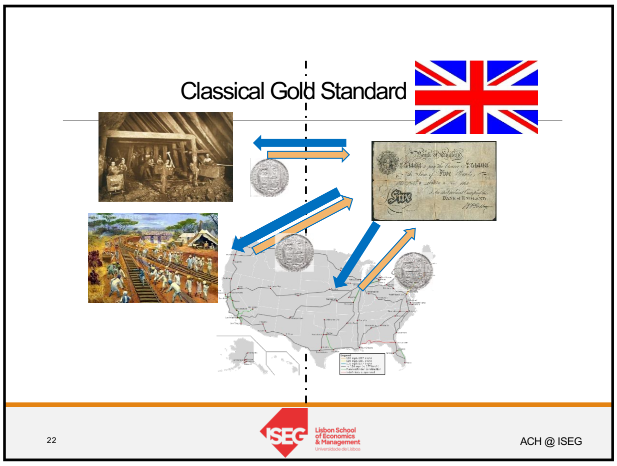

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Table 1.4 Destination of Foreign Investment, 1870-1913				
		UK	France	Germany
Europe	*Russia*	3.4%	25.1%	*7,7%*
	Ottoman Empire	1.0%	7.3%	*7,7%*
	Austria-Hungary	1.0%	4.9%	12.8%
	Portugal and Spain	0.8%	8.7%	7.2%
	Italy	1.0%	2.9%	17.9%
	Other	2.5%	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%	9.0%	2.0%
TOTAL		100%	100%	100%
(Of this colonies)		16.9%	8,.9%	2.6%

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Main capital exporters, 1870-1913

This is about essentially private investors who sought countries with

- Gold standard
- High interests/ high capital returns
- Sound Institutions
- Natural Resources

By looking after increasing capital gains, these privates ended up by transfering capital to capital-poor countries in large scale

As such, GB/Fr/Ger growth was chanelled, via foreign investment to growth abroad

Check how in 1905-14, about half of the savings of the world's richest economy were invested abroad

	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	41,8%		19,8%	12,8%

Fonte: Daudin *et al*, p. 10

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Impacts

Benefits 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

Benefits 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

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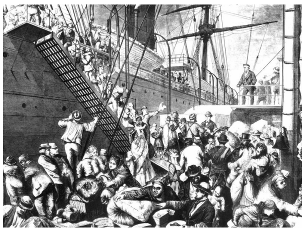
Mass Economic Migration



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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

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New and Old Worlds (Pop./km^2)

	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

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Migration Flows

From Europe to the New World. Why?

- Sending countries countries wealthier. So why migrate?
  - Wage differential (wages were higher in the the New World), despite sending countries being wealthier
  - New World contained large resources, that were unexplored for lack of labour stock high
- Pop density of sending countries very high, meaning that the New World offered lower rents and higher wages

Table 1.5 Crude Emmigration rates (in 1/1000 of average pop.)

	1851-60	1861-70	1871-80	1881-90	1891-1900	1901-10
Itály			10,5	33,6	50,2	107,7
Norway	24,2	57,6	47,3	95,2	44,9	83,3
Ireland	58,0	51,8	66,1	141,7	88,5	69,8
Gret-Britain			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
Áustria-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
Bélgium				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

Impact

- Increase of real wages in labour-exporting countries, as poorer, uncompetitive workers leave the labour market
- In the labour-importing countries, increase of labour supply allows for rapid agrarian and industrial growth

	Δ Active Pop. 1870-1913	Δ Real wages 1870-1913	Real wages / british real wages	
			1870	1913
Ireland	-45%	32%	73%	92%
Itály	-39%	28%	48%	95%
Norway	-24%	10%	40%	56%
Fonte: Daudin et al, p. 21.				