ECONOMIC AND BUSINESS HISTORY 22/23

LECTURE 12 – FROM DEGLOBALIZATION TO DEPRESSION

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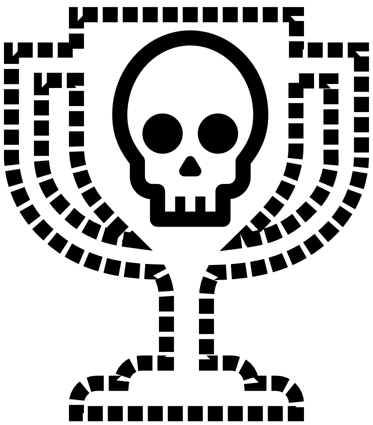
PLAN

1. Winner's Curse

2. Crash

3. Great Depression

1. Winner's Curse



WHO WON WWI?

Shares of the World Industrial Output (1913 and 1926-9)

	USA	Germ.	GB	France	Russia/ URSS	Sweden	Japan	India	Rest of the W
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 e Lougheed 1999: 173.

The Spoils of Victory

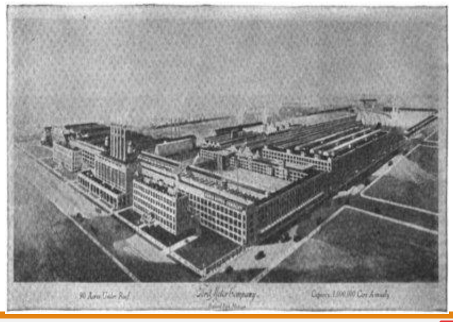
- Germany sells capital goods (locomotives, trains, ships) and stocks (incl. German-financed US railway companies) to the US in order to obtain dollars to pay the Reparations imposed in 1919.
- In 1917, the confiscation of all 5,000 German patents and their compulsory licensing (Aspirine, e.g.) transferred the technological edge is chemistry and steel sectors from Germany to the US
- Financial and physical capital abundant in the US

Domestic Economy: firms and market

- US gov, since the late 19th cent, issued anti-trust laws preventing "coordination strategies" by firms:
  - CARTEL – price setting agreements, by competitors
  - TRUST – union of competing businesses and creation of a mother company, onwed in shares by the older owner (Trustees)
  - Nevertheless, Prevalence of large firms with good access to the capital markets leads to the spread of
  - HOLDING – business created to control other businesses and groups of businesses

Large Firms

- The US vast internal market, as well as a large amount of wealthy consummers meant that size was an advantage
- Assembly lines and other efficiency-enhancing technologies (pre- and post-1918) contribute to the rise of the large firms, like Ford and GM



Largest industrial firms, 1917 and 1930 (by Stock value in current USD)

	USA		GERMANY		UNITED KINGDOM	
	1917	1930	1919	1930	1913	1929
1st	2.449,5	2.394,5	278,2	641,4	142,6	510,9
2nd	574,1	1.770,9	199,4	634,1	110,2	497,7
3rd	381,5	1.315,8	128,9	508,3	77,0	138,0
4th	314,1	820,6	107,7	375,6	66,2	112,5
5th	306,3	801,1	101,0	290,6	53,3	100,2
25th	143,3	308,5	28,8	58,8	18,6	25,7
50th	90,3	174,7	17,7	33,5	9,8	15,6
100th	43,6	80,1	9,3	16,5	5,6	8,9
200th	24,4	36,1	4,4	6,3	3,0	3,8

Domestic Economy: families

- With WWI, USA received more physical and financial capital and its vast increases in productivity allowed vast market segment to emulate the high class of the *Belle Époque*
  - High-tech durables, like cars and domestic appliances (iron, radio, toaster, fridge...) became mass-consumption items

The *Roaring Twenties*

For the others: the Spoils of Defeat

- The great sacrifices demanded from the working class and from women during WWI made un**iversal** (all men, regardless of status, and also all women) **voting** inevitable
- This meant a shift from capital-friendly to labour-friendly institutions
- Concerns with unemployment led countries to become protectionist
- Also, state budgets became larger and more redistributive (pensions, war debts, state-owned firms)

2. Crash

The Roaring 20s were great for the US, right?

- Yes, but ...
  - With WWI-induced protecionism, the US was 'leading alone'
    - Worker-influenced European govs try to protect jobs
    - Also, the world retaliates on US ‘unfair’ competition (USA continued to be strongly protectionist, even after 1918, when it had clear comparative advantages in many fields)
    - Non-US firms adapted to domestic, not foreign, demand and hence not as innovative as before
  - MOST OF ALL, Fast growth ► high savings ► low return rates!!!

Deglobalization in the World Capital Markets

- With WWI, USA became a creditor nation and its capital market became the most important in the world
  - European stock and fixed capital -> productivity growth -> high growth rates
  - Abundant (but country-tied) capital -> low return rates from investment

Deglobalization and the 1929 Crash

- There was a brief period of re-globalization from 1925 to 1928 (with American investment in S America and Central Europe)
- However, giving in to pressures from the American banks, in 1928 the American FED suddently RAISED its discount rate and LIMITTED outward capital flows
- US capital-owners did not export their capital and, instead, brough it back from European and S American countries
- This led to a BUBBLE in the US capital market, invaded a glut of returning capital (not to mention industrial crises in Europe, notably Germany…)

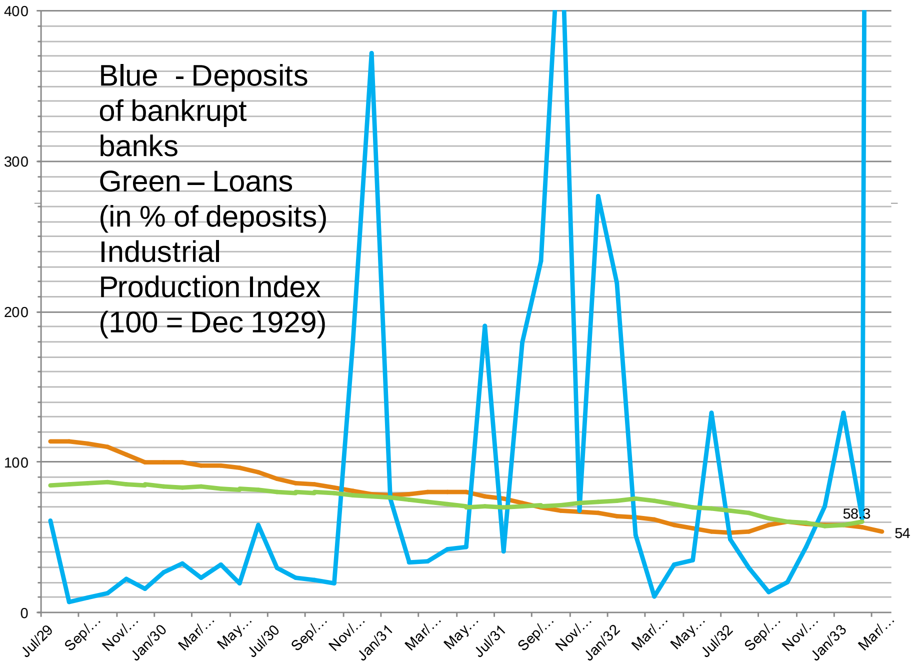
Post-1929 Financial Collapse

This bubble popped in October 1929 (Black Thursday 24; Black Tuesday 29)

- *Crash* led to the public suspicion regarding banks
- Frequent “Bank Runs” followed
  - Broken banks 1929-22 (c. 6000; c. 25% of existing)

What were the consequences?

3. Great Depression



Fonte: Bernanke, 1983.

GD in the US

Ano	FED Discount Rates	GDP growth	Unemployment rate
1928	4,2	1,1	4,4
1929	4,8	6,1	3,2
1930	3,9	-8,9	8,7
1931	2,9	-7,7	15,9
1932	3,5	-1,3	23,6
1933	3,8	-2,1	24,9
1934	2,1	7,7	21,7
1935	2,0	7,6	20,1
1936	2,0	14,2	16,9
1937	1,8	4,3	14,3
1938	1,5	-4,0	19,0
1939	1,5	8,0	17,2
1940	1,5	7,7	14,6
1941	1,5	18,2	9,9

Abrupt, deep and long recession in 1930-33

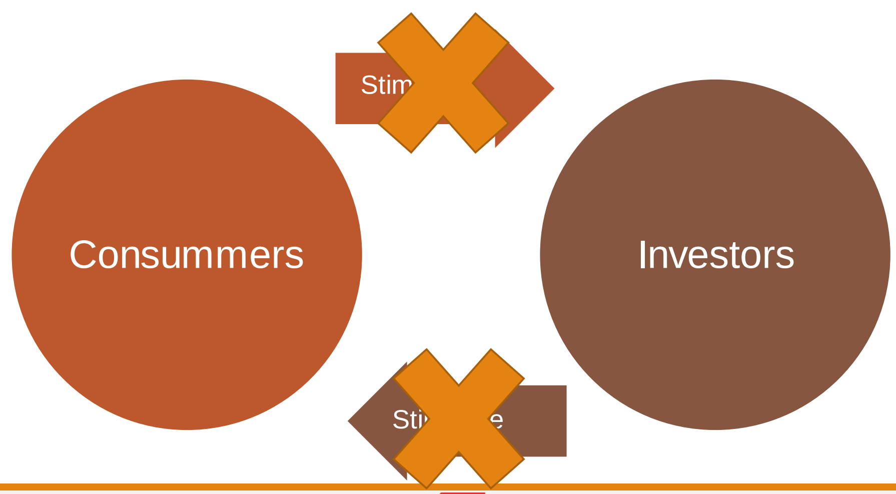
High unemployment

Even the recovery of the GDP (complete by 1936) did not eliminate unemployment

Low expectations:

- Consumers
- investors

Unemployment and high interest rates increase negative expectations



And the initial US response to the GD was …

more proteccionism !

US Congress tried to protect American agriculture with higher tariffs (*Smoot-Hawley* 1930 tariff that was being discussed in … September 1929)

US government aproves Fresh limits for capital outflows

Understandably, new restrictions on immigration

The main negative effect of proteccionism was the political impact

- Other countries retaliated and increased their tairffs and approved more restrictions on American products (thus hurting American exports)

World Spread of the GD (trade)

As the US adopted a protectionist policy to protect domestic employment, countries retaliated

- Wave of tariff increases (that aggravated the WWI-era increases)

The result is further Deglobalization and less exploitation of comparative advantages

Political and Social concerns, rather than economic efficiency

Table 2. – International Tariff Levels

Country	Average Ad Valorem Equivalent Tariffs 1920–1929	1930–1940
United States		
Total imports	13.0	16.6
Dutiable imports	35.1	44.5
Other countries		
Trade–Weighted Average	9.9	19.9
Canada	13.4	15.2
France	7.1	21.0
Germany	7.2	26.1
Italy	4.5	16.8
United Kingdom	9.8	23.2

World Spread of the GD (finance)

As the US controlled its capital outflows, countries had little to benefit from keeping the gold standard

All countries abandoned gold in 1933

Devaluations everywhere, increasing exchange rate risk and protectionism

The result is further Deglobalization

Distribution of the World Industrial Output in 1913 and 1926-9 (%)

	1913	1926-9	1936-8
USA	35,8	42,2	32,3
Germany	14,3	11,6	10,7
GB	14,1	9,4	9,2
France	7,0	6,6	4,5
URSS	4,4*	4,3	18,5
Sweden	1,0	1,0	1,3
Japan	1,2	2,5	3,5
India	1,1	1,2	1,4
Rest	21,1	21,2	18,7

Kenwood e Lougheed 1999: 173.