LECTURE 7 – THE FIRST GLOBALIZATION

ECONOMIC AND BUSINESS HISTORY 22/23 (2ND TERM)

PLAN


1. Trade

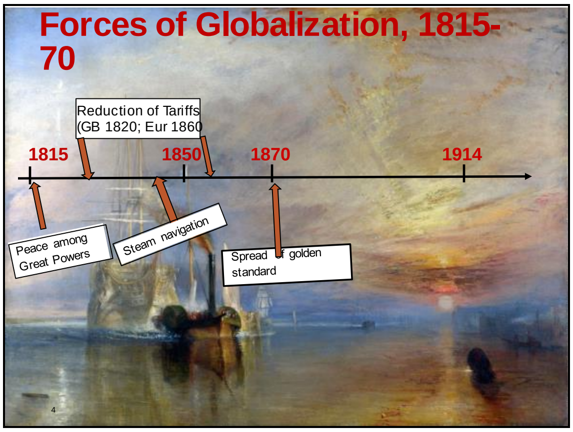

2. Mass Migration


3. Capital Flows

(Economic) Globalization

Market allocation mechanism is enlarged to the world scale

- **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 Market**
  - **Labour** moves from countries where its abundant to countries where it is scarce, and where it commands higher **wages**
- **Country specialisation**
  - International trade allows that each country identifies its comparative advantage
  - Integration of the world markets of tradable commodities



From c. 1815...

Institutions and technology are aligned and permit for a truly global economy to emerge

- **International Capital Movements**
  - Gold Standard (worldwide since 1870)
- **Migrations**
  - Nearly-unrestricted migration
- **International Trade**
  - Unilateral liberalization (England, NW Europe, Germany)
  - Billateral treaties (since 1860)

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1. Trade

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World Trade, 1650-1815

- 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 traded for woollen cloth)
- Protectionism in every border
- European Empires trade exclusively with the mainlaind
- **World Trade** in mercantilism, means **world 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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External Trade

- Three mains causes for this increase:
  - International order ensures peace among Great Powers (since 1815)
  - States voluntarily open economic borders (since 1820);
  - International transport costs decrease (since 1850);
  - (Gold standard helpful, but only after 1870, so not decisive)
- Exports increase at a higher rate than GDP (Maddison);
  - Capitalist econbomies were becoming increasingly export-orientred

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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* (1833-60)
  - Cobden-Chevalier Treaty(1860)

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International Trade (Imp.+Exp./GDP)

	1790	1820	1830	1870	1913
Hollanda	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%
SWE			5,7%	29,4%	34,7%
France	20%	9,8%	8,2%	23,6%	30,8%
Austria			11,4%	29%	24,1%
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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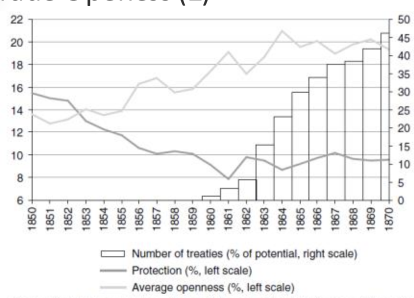
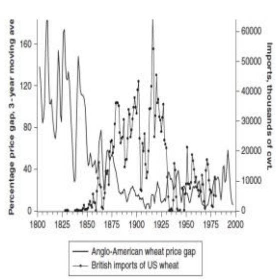
Trade Openess (2)



The first free-trade era in Europe. *Source:* O. Accominotti and M. Flandreau, 'Bilateral treaties and the most-favoured-nation clause', *World Politics* 60(2) (2008), pp. 147–88.

Impact of Trade Openess and Tech

- Market integration of main commodities:
  - E.g., wheat, meat, cotton
- Foreign, more efficient producers substituted national producers
- Increase in real wages



2. Mass Migration

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Labour Flows

- Two main cause for this increase:
  - Contrast between densely-populated Old and sparsely-populated New World
    - Relative High wages and low rents in the New World
  - Overseas transport costs decrease (since 1850);
- Integration of world labour
  - Increase in wages in both Old and New World

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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./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

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Impact

- Increase of real wages
  - *"The biggest lesson of 19th century migration history is that emigration is of major benefit for poor economies"*

	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.				

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Impact (2)

	Real Wage (100 = GB 1905)		GDPpc (1990 US$)		PIB per hour worked	
Sweden	28	98	1,664	3,096	1,22	**2,58**
ITALY	26	55	1,467	2,507	1,03	**2,09**
UK	*67*	*98*	*3,263*	*5,032*	*2,61*	***4,40***
Bélgium	*60*	*90*	*2,640*	*4,130*	*2,12*	*3,60*
US	**115**	**169**	**2,457**	**5,307**	**2,26**	5,12

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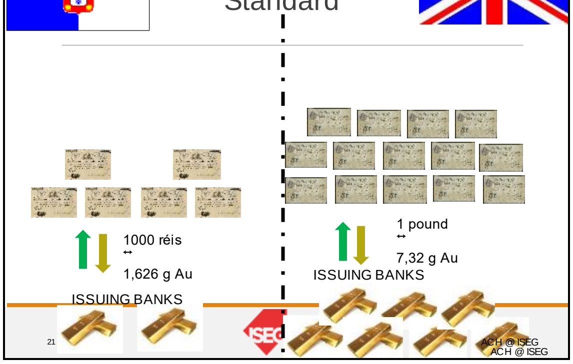
3. International Capital Flows

Foreign Investment

- Neglible until 1870
- 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 are convertible in gold
  - a) low exchange rate risk
  - b) balanced budgets and low public debts

Classical Gold Standard



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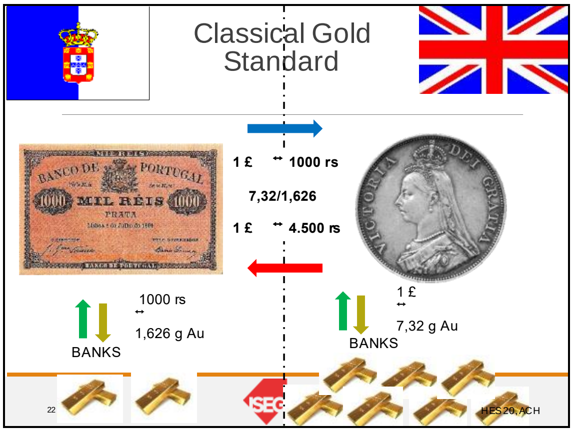
Classical Gold Standard
1 £ ↔ 1000 rs
7,32/1,626
1 £ ↔ 4.500 rs
1000 rs ↔ 1,626 g Au
BANKS
1 £ ↔ 7,32 g Au
BANKS
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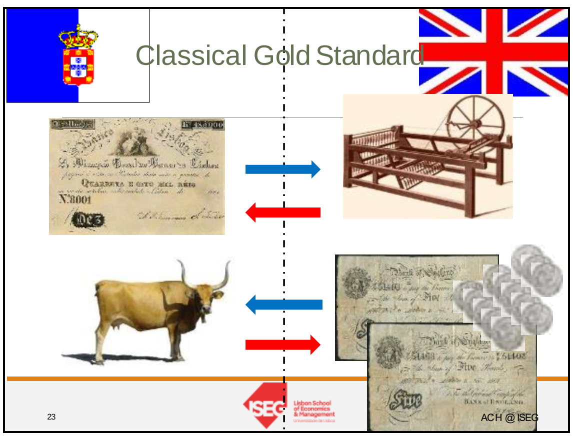
Classical Gold Standard
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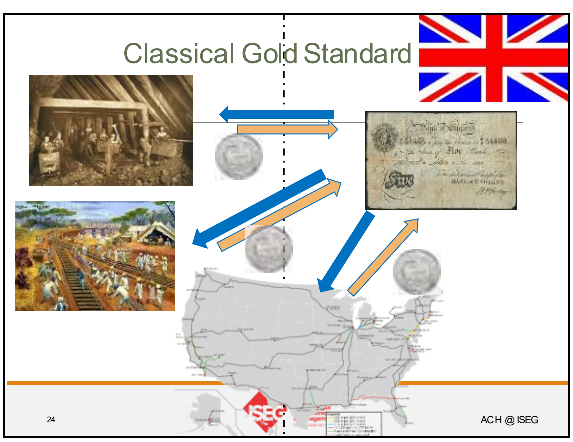
Classical Gold Standard
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Main capital exporters, 1870-1913

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

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Fonte: Daudin *et al*, p. 10

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Impact

- This is about essentially private investors who sought countries with
  - Gold standard
  - High interests/ high capital returns
  - Sound Institutions
  - Natural Resources
- 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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