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.

Great for the US, right?

- Yes, but …
  - Leaders need followers
  - War led to protecctionism in Europe, as govs tried to protect jobs from foreign competition
  - Also, universal-vote democracy made workers' interests more important and employment became a political issue
  - Fear of US 'unfair' competition (USA had been strongly protectionist in the First Glob., whereas UK or Germany had been free-traders)

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

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

The *Roaring Twenties*

- Fast growth ► high savings ► low return rates

2. Crash

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
- 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

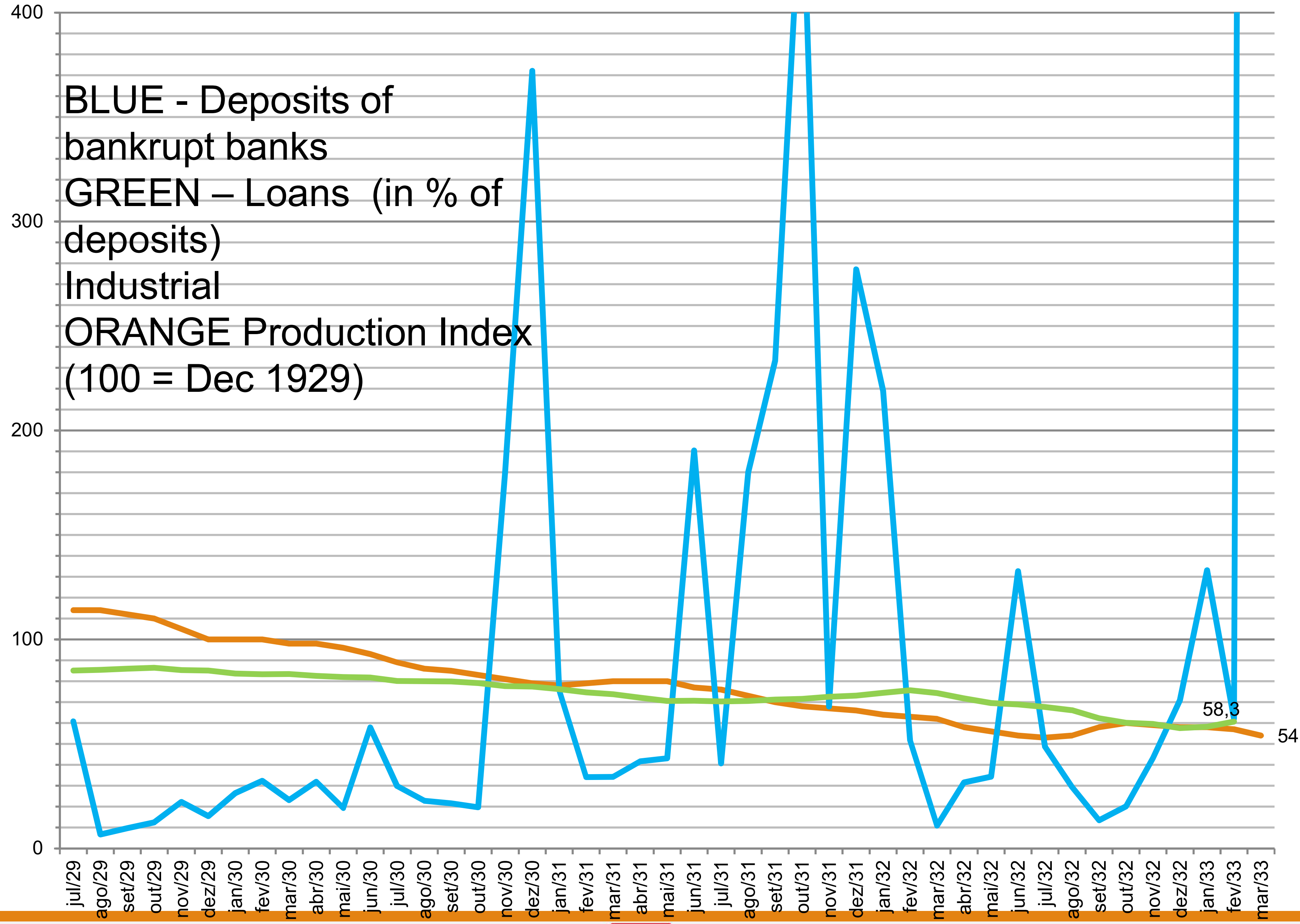
This bubble popped in October 1929

(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

Abrupt, deep and long recession in 1930-33

High unemployment

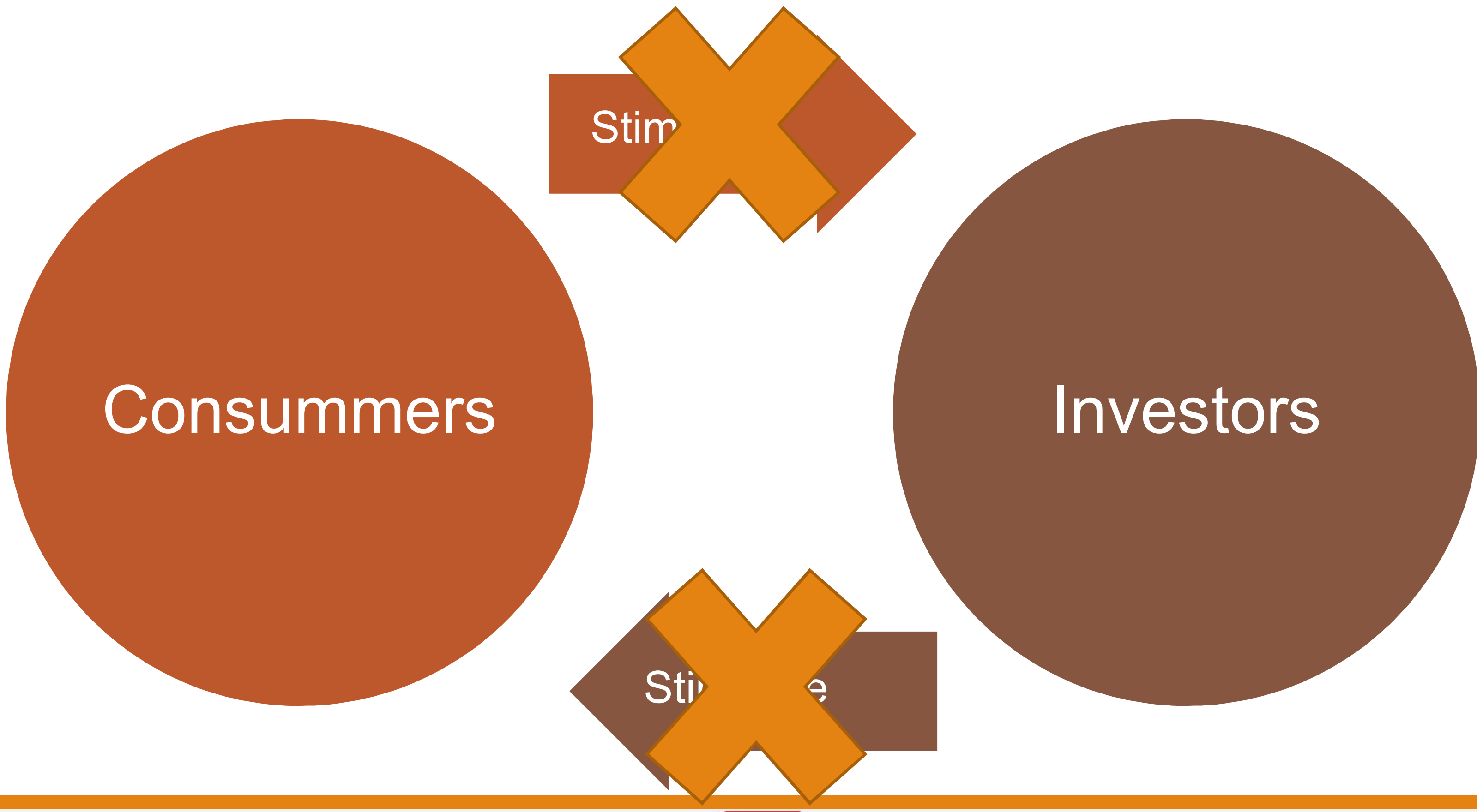
Even the recovery of the GDP (complete by 1936) did not eliminate unemployment

Low expectations:

- Consumers
- investors

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

Unemployment and high interest rates increase negative expectations



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	Average Ad Valorem Equivalent Tariffs 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

GD Spreads Worldwide (finance)

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