





LECTURE 11 – DEGLOBALIZATION

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



1

PLAN

-  1. WWI
-  2. Death of the Liberal Age
-  3. US Hegemony

ACH @ ISEG 2

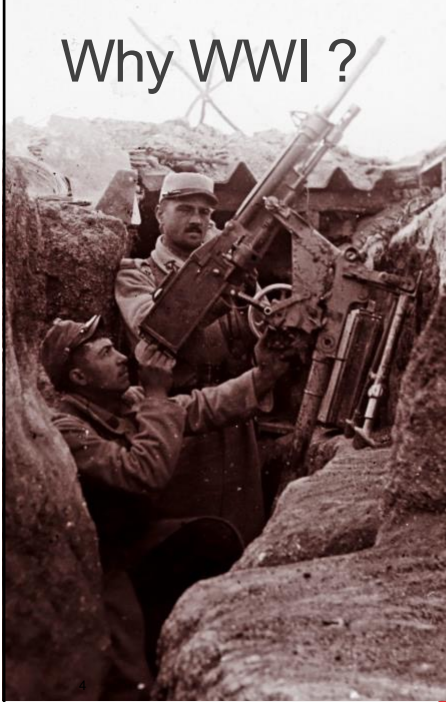
2

1. WWI

3

3

Why WWI ?



- External shock
- War undesired effect of almost-mechanic interaction between the great powers
- Euro Great Powers 'sleepwalked into the war'
 - Fast communications (telegraph) and transport led to the 'urge' do declare war ASAP)
 - Alliances system led to a Domino Effect
 - Few countries actually had discernible strategic or economic objectives
- Short-term decisions, in the expectation that war would be short

4

Military Personnel Deaths

	Deaths (1000s)	Population (millions)	Deaths as % of population
Great Britain	715	46.1	1.6
British Empire	198	342.2	0.1
France	1,327	39.6	3.4
French colonies	71	52.7	0.1
Russia	1,811	167.0	1.1
Italy	578	35.9	1.6
USA	114	98.8	0.1
Belgium	38	7.6	0.5
Serbia-Montenegro	278	4.9	5.7
Rumania	250	7.6	3.3
Greece	26	4.9	0.5
Portugal	7	6.1	0.1
<i>Total Allies</i>	5,413	813.4	0.7
Germany	2,037	67.8	3.0
Austria-Hungary	1,100	58.6	1.9
Turkey	804	21.7	3.7
Bulgaria	88	4.7	1.9
<i>Total Central Powers</i>	4,029	152.8	2.6
<i>Total</i>	9,442	966.2	1.0

5

Change in Real GDP (1914-8)

	UK	USA	Germany	Austria	Russia	France
1913	100.0	100.0	100.0	100.0	100.0	100.0
1914	92.3	101.0	85.2	83.5	94.5	92.9
1915	94.9	109.1	80.9	77.4	95.5	91.0
1916	108.0	111.5	81.7	76.5	79.8	95.6
1917	105.3	112.5	81.8	74.8	67.7	81.0
1918	114.8	113.2	81.8	73.3	–	63.9

6

The impact of WW1 (1914-8)

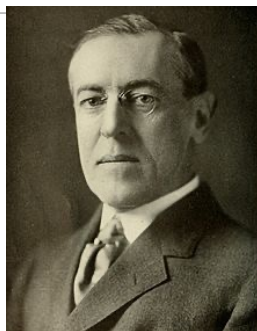
Liberal Phase institutions wiped out in 28 Jul 1914:

- Gold standard is suspended and foreign investment flows interrupted (Germany, GB and France were the source of +90% of external investment)
- Commercial navigation was severely reduced (German U-Boats, Royal Navy blockade)
- Migration to the New World stopped immediately (navigation risks, mobilization of soldiers, US restrictions)



7

The end: US ends the war unilaterally, at odds w/ Allies



President Wilson : “Peace without victory”; “this is a war to end all wars”

8

8

2. Death of the Liberal Age

9

9

System Shock



System shock

An event that changes world economic order and thus makes existing economic institutions and policies obsolete
AND thus it leads to the emergence of new institutions and policies better suited to the new circumstances

10

10

Share of Gov Spending in GDP, 1913-18 (% current prices)

	Australia	Canada	France	Germany	UK	USA
1913	5.5	7.0	10.0	9.8	8.1	1.8
1914	5.7	10.0	22.3	23.9	12.7	1.9
1915	9.6	13.1	46.4	43.8	33.3	1.9
1916	14.0	16.5	47.2	50.3	37.1	1.5
1917	17.2	15.7	49.9	59.0	37.1	3.2
1918	17.2	16.9	53.5	50.1	35.1	16.6

11

Peace and the Versailles Treaty

Jan 1918 US sets the “14 points” (including (point XI..., which states that a “compensation” was due by the “aggressor”)

11 Nov 1918 German Armistice negotiated **with the US**, accepting the 14 points

- German trusting on American promises of “reasonability” in the compensation

Jan 1919 – June 1919 – peace negotiations

28 June 1919 Versailles Treaty

- Main issue: article 231 (Reparations)
- French inflexibility to compromise; England also interested in using German reparations to pay for the soldier’s pensions

12

“Paper Shackles”

Debt to the US

US reject agréments to moderate interest on war loans

↓


Increase of Public Xpd

Allied face increase of Public Xpd and have trouble in paying Debts


↓

Pressure on defeated Germany piles up

In the words of Keynes, world economies, especially capital markets, are bound by treatises and public debt bonds




13


ISEG Lisbon School of Economics & Management
Universidade de Lisboa

13

3. US Hegemony

14


ISEG Lisbon School of Economics & Management
Universidade de Lisboa

ACH @ ISEG

14

Who Won WW1?

World Industrial Output (%)

	USA	Germany	GB	France	Russia/ URSS	Sweden	Japan	India	Rest
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 and Lougheed 1999:
173.

15

15

US Hegemony



In 1918, the USA was no longer to be a rapid industrialising periphery, with (proportionally) modest military power

In 1918, the USA was no longer a net importer of Euro Capital

In 1918, the USA was no longer a net importer of world manpower

In 1918, the USA continued to be a protectionist economy

16

16

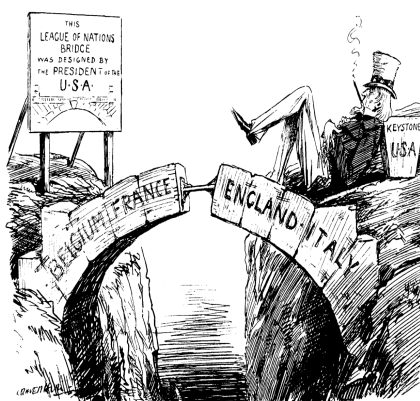
League of Nations

- US victory meant that the US had the keys to 'Reglobalization', as agreed by all
- President Wilson defended a multilateral institution (League of Nations (1920-46), tasked with rebuilding world order, including resuscitating economic liberalism worldwide:
 - Renewal of gold standard, supported by US loans to affected countries;
 - Loans to rebuilding European infrastructure
 - Reduction of multilateral trade deals and low tariffs



The League of Nations

- Yet, the US did not join the League of Nations,
- As such, the League's potential for recreating Globalization was unfulfilled
- European states and businesses remained starved of credits for reconstruction and recovery
- European businesses could not count with trade liberalization in the US (which was already very protectionist) and lost incentives to liberalize



THE GAP IN THE BRIDGE.

Fonte: Punch Magazine 10 December 1919

Deglobalization post-1914

Restrictions on the free movement of capitals, commodities and workers increased, despite appeals from the LoN

Average tariff level

	1913	1931
France	20	30
Germany	17	21
Italy	18	46
USA	44	48