

Belle Époque: for whom?

- Global Capital Flows, increasing returns of capital-holders
- Multinationals and Large modern firms, helping capital-holders making the most of market conditions
- Demand for capital meant high Returns w/ foreign and domestic portfolios
- Labour-saving Innovations favouring entrepreneurs rather than workers



5



The Condition of the Working Class in England (Engels, 1844)

"The smaller peasants in Germany are usually poor, and often suffer want, but they are less at the mercy of accident, they have at least something secure. The proletarian, who has nothing but his two hands, who consumes today what he earned yesterday, who is subject to every possible chance, and has not the slightest guarantee for being able to earn the barest necessities of life, whom every crisis, every whim of his employer may deprive of bread, this proletarian is placed in the most revolting, inhuman position conceivable for a human being."

F. Engels, a German industrial with business ties with England, denounces:

- Job insecurity
- Extremely poor health conditions
- Child labor
- Criminality and Dissolution of family life



cit. in Pamuk e Van Zanden 2010, p. 218)

6



The Communist Manifesto

Written in 1847 and published in 1848, at a period of social-unrest throughout all of Europe: revolts against high agricultural prices (Ireland, Belgium), for universal voting and political rights (Paris, Berlin) and for independence (Naples, Budapest, Bucarest, Prague).

Marx and Engels argued that the workers or Proletarians live in the worst conditions imaginable



7



The Manifesto's argument

In proportion as the bourgeoisie, i.e., capital, is developed, in the same proportion is the proletariat, the modern working class, developed – a class of labourers, who live only so long as they find work, and who find work only so long as their labour increases capital. These labourers, who must sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market.

The workman (...) becomes an appendage of the machine, and it is only the most simple, most monotonous, and most easily acquired knack, that is required of him. Hence, the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for maintenance, and for the propagation of his race. (...)

8



Industry in a Market Economy = Oppression

Industrialisation has placed workers in their worst ever condition, with wage pressured down to subsistence level, as in Malthusian policies

Does this theory fit with the data?

```

    graph TD
      A[COMPETITION among capitalists and workers] --> B[TECHNOLOGY]
      A --> C[CHANGES IN AGRICULTURE]
      B --> D[UNEMPLOYMENT]
      C --> D
      D --> E[WAGE DECAY]
  
```

ISEG Lisbon School of Economics & Management

9

Did wages decrease to subsistence levels?

In Manifesto, the growth industry implies the decrease of the real wage

Real Wages = nominal wage * CPI (Consumer Price Index or basket)

Why unskilled labourers?

- The most vulnerable to changes in the labour market
- Their wages represent the pure value of labour (unskilled = no human capital included)

This outcome is observable if we look at the **Real Wages** of unskilled laborers

ISEG Lisbon School of Economics & Management

10

Real Day Wages, UK

DATAS	GDPpc (annual growth rate)	Real wages (annual growth rate)		
		Feinstein 1998	Allen 2001	Clark 2006
1780-1820	25%	14%	12%	35%
1820-50	33%	20%	4%	13%
1850-70	37%	9%	20%	24%

ISEG Lisbon School of Economics & Management ACH @ ISEG

11

Evolution of the Real Wage (UK)

Despite adverse forces in the labour market and no real social protection, real wages **did** grow!

"wages did not decline in the face of rapid population growth (...). In previous periods (...) rapid population growth had resulted in a strong decline in real wages" (Pamuk e v. Zanden, 225)

However, they grew at a lower pace than the GDPpc (except for 1780-1820, according to Clark 2006)

ISEG Lisbon School of Economics & Management ACH @ ISEG

12

Real Wages vs Other Indicators

“Real Wages” is an indicator with methodological and theoretical shortcomings:

- Uncertainty in the composition of the price index and commodity baskets
- Based on DAY WAGES, not annual income
- They do not capture directly ‘welfare’ or ‘well-being’

Living Standards data: They have the advantage of having Normal Distribution and/or reflecting the median individual

Biometric Data; Average Life Expectancy at birth; Literacy;

13
ACH @ ISEG

13

Life Expectancy at birth

	1820	1870	c. 1913
GB	40	41	53,5*
France	37	42	51,5
Germany	32	36	49,0
Holland	32	37	56,1
Sweden	37	45	58,6
Italy	30	33	48,4
Spain	30	34	41,5
Poland	29	32	42
Turkey	27	31	n.a.
Russia	25	30	31,5

England, industrialised in 1820 had the highest LiEx;

Germany and France saw their LiEx increase during industrialization.

LiEx also increased in non-industrialised advanced economies, like Holland or Sweden;

However, LiEx of control group (non-advanced countries: Spain, Poland, Turkey, Russia) also increased.

14
ACH @ ISEG

14

Literacy (variable = % of adults who can sign)

	1820	1870
GB	53	76
France	38	69
Germany	65	80
Holland	67	81
Sweden	75?	80?
Italy	22	32
Spain	20	30
Turkey	6?	9?
Russia	8	15

Industrialization did not set GB apart

In France and Germany, literacy increased during industrialization.

This also happened to the control group (Spain, Turkey and Russia)

15
ACH @ ISEG

15

Literacy (W, E and S Europe)

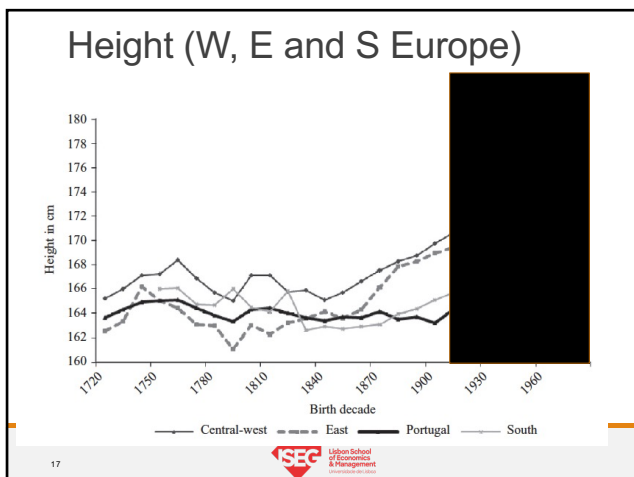
Figure 7. Panel B: Literacy in Europe late eighteenth to early twentieth century, by birth decade

Notes: Central-west: Germany, Austria, the Netherlands, the UK, Ireland, France, Sweden. East: Russia, Poland, and Hungary. South: Italy and Spain.

Sources: Portugal and Spain: Tortella, 'Economic retardation'. Spain: Carreras and Tufinell, *Historia economica*. Griff, *Legacies*. Italy: Flori, *State*. Russia: Mironov, 'Literacy'; *Russian Census 1897*. Hungary: Toth, *Literacy*. Poland: *Prace naukowe Instytutu Historii Uniwersytetu Warszawskiego 1897*; *United Nations Demographic Yearbook 1963*. Austria: Griff, *Legacies*. Germany: Hofmeister, Prass, and Winnie, 'Elementary education'. France: Gillis, 'Literacy'. Sweden: Johansson, 'History'. Czech and Slovak lands:

16
ACH @ ISEG

16



17

Belle Époque? For whom?

- As MEG developed, workers did not fail to acquire better real wages and, overall, living conditions
- This happened in the industrial leaders (UK, France) and other advanced countries (Holland, Sweden), and also in peripheral countries (Turkey, Russia), hinting that the benefits of Globalization were not limited to Europe or the North Atlantic (data for Africa and Asia missing)
- However, inequality rose, contributing to social tensions and criticism of industrialisation

ISEG - Lisbon School of Economics & Management

18

2. Winners and Losers

ISEG - Lisbon School of Economics & Management

19

Inter-country Inequality

- Before Globalization, differences between economies were not as large as today (ratio largest:lowest in 1820 was approx. 5:1, against approx. 250:1* in 2020)
- Is Globalization to blame for these increase in differences?
- More precisely: did Globalization contribute to inhibit growth in the poorest countries?

* Not counting with Afghanistan, Burundi, micro-states and oil-producing countries

ISEG - Lisbon School of Economics & Management

20

Primary Sector and Globalization

- Limited supply of capital and labour available for international transfers, meant that countries in the periphery (US included) had their comparative advantages in the primary sector
- Also, industrialization and growth increased the demand for raw materials and agrarian goods
 - Agrarian goods were the prevalent products during Globalization (see next Graph)
- Globalization was thus an opportunity for poor countries to specialize in agricultural and mining production

21



Lisbon School of Economics & Management

HES2020, ACH E SC

21

Primary Sector and Globalization

- Industrial demand for primary materials of the central economies created an opportunity for specialization in some hitherto loosely connected areas of the globe.
- This led to the development of highly-specialised economies and to good infrastructure
- Also, the First Globalization also introduced: rubber in Asia, Coffee in Brazil, Tea in Ceylon, Cotton and Tea in Africa, etc. etc....

22



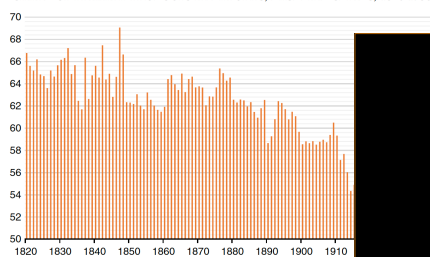
Lisbon School of Economics & Management

ACH @ ISEG

22

Early Globalization stimulated trade on agrarian goods

SHARE OF PRIMARY PRODUCTS IN EXPORTS, BASELINE SERIES, 1820-1938



23



Lisbon School of Economics & Management

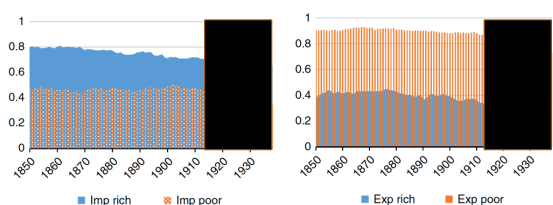
ACH @ ISEG

23

Specialization Pattern: Core and Periphery

- In exchange, peripheral countries imported mostly manufactures (see graph)
- Specialisation left economies vulnerable without the mounting demand for foodstuffs and raw materials of the industrializing regions at the core/centre

SHARE OF PRIMARY PRODUCTS IN EXPORTS AND IMPORTS IN RICH AND POOR COUNTRIES



24



Lisbon School of Economics & Management

ACH @ ISEG

24

The Danger of Enclave Economies

- An 'enclave economy' is a country where external demand for a few specific commodities or raw materials (typically cash crops like rubber, cotton, cocoa, bananas, coffee, palm oil) develops a strong export sector but leaves the rest of the economy unchanged
- Thus, for instance:
 - In Gambia, 1851, groundnuts represented 71% of exports
 - In Angola, 1887-1912, rubber represented 64% of exports.
 - In Nigeria, 1881-1889, palm oil (and by-products) represented 75% of exports

25



Lisbon School of Economics & Management

ACH @ ISEG

25

The Danger of Enclave Economies

- An 'enclave economy' is a country where external demand for a few specific commodities or raw materials (typically cash crops like rubber, cotton, cocoa, bananas, coffee, palm oil) develops a strong export sector but leaves the rest of the economy unchanged
- Thus, for instance:
 - In Gambia, 1851, groundnuts represented 71% of exports
 - In Angola, 1887-1912, rubber represented 64% of exports.
 - In Nigeria, 1881-1889, palm oil (and by-products) represented 75% of exports

26



Lisbon School of Economics & Management

ACH @ ISEG

26

Between-country Convergence or Divergence?

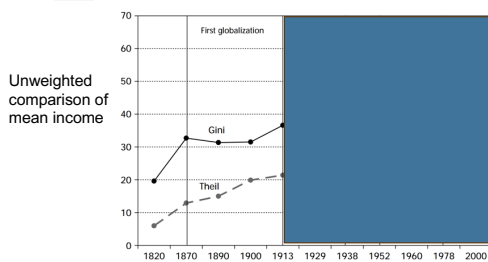


Figure 2.1 Concept 1 inequality, 1820-2000

27



Lisbon School of Economics & Management

ACH @ ISEG

27

Convergence or Divergence

- Globalization was contributing to inter-country divergence, in its first half century
- However, after 1870, with gold standard easing trade between countries, and acting as a conduit for foreign investment, the divergence is not so steep
- The effect of enclave economies was not powerful enough to contribute to divergence (also some peripheral economies, like the US or Canada ultimately industrialised)
- Finally, and most important, not all divergence is to be ascribed to Globalization, part of it is to be blamed on the refusal of Globalization

28



Lisbon School of Economics & Management

ACH @ ISEG

28

The key role of 'self-imposed limits'

- "The major obstacles to the diffusion of modern technology were to be found within countries rather than between them" (Text 2, p. 9)
- Non-economic influences, particularly social attitudes, customs, beliefs and motivation to succeed economically, are important determinants of the rate at which new techniques are diffused throughout an economy.
- Rigid societal norms, regulation of markets, low education levels, as well as the low social value attached to industry and profit in the culture of some of countries constituted insurmountable barriers to the adoption of the new industrial technology
- Thus, the opportunities of Globalization could be rejected. The Japan vs China comparison is very telling

Japan vs China

- Displaying a common policy of exclusiveness and virtual absence of contracts with foreign countries, as well as a social structure and system of land ownership that acted as a barrier to industrialization, their responses to Western intervention in their affairs were totally different.
- With a high receptivity to the new technology, Japan began industrializing rapidly towards the end of the nineteenth century without any major social or cultural changes
- The Chinese government remained contemptuous of Western civilization and opposed to social and economic change (prohibition of steam boats)

Chinese Railways: a True Tale (1)

- In 1860, after the Opium Wars, Britain and France sought to invest in China, as elsewhere in the world. Great returns were expected, with railways seen as the key instrument for opening up trade, as in India. The Grand Canal and transported on foot by porters
- The first British survey of the land for a possible railroad ended in a fateful Chinese attack, Britain obtained further reparations and the vassal kingdom of Burma.
- British entrepreneurs in Shanghai built the first railway in China: a short, 24-km long line in 1876
- This met with some opposition because of the belief that railways bring very bad Feng Shui, because of straight lines, dark smoke and the cold metal tracks, which were seen as a conduit for evil spirits
- To mitigate this influence un-necessary curves were added to the route of the track, but opposition lingered on



Chinese Railways: a True Tale (2)

- The first line was bought by the state, in order to accommodate interests from traditional transporters) and dismantled it in 1877
- The government saw the railways as a threat, as they allowed foreign troops, missionaries and their influence to penetrate deep into China.
- The *Wangtu Wangmin* principle created serious ownership problems for the foreign investors
- Also, the imperial state forbade a railway to go within Beijing's walls, except for a miniature railway that linked the living quarters and a dining hall, but it was pulled not by an engine but by the palace servants!



Self-imposed limits

"What was an even greater obstacle to the spread of industrialization was the fact that many countries, even when they received inflows of foreign labour and capital, lacked absorptive capacity, the knowledge base, institutions and flexibility necessary to take advantage of the changing technological opportunities that presented themselves." (Text 2, p. 10)