ECONOMIC AND BUSINESS HISTORY 23/24

LECTURE 10 – INEQUALITY AND GLOBALIZATION

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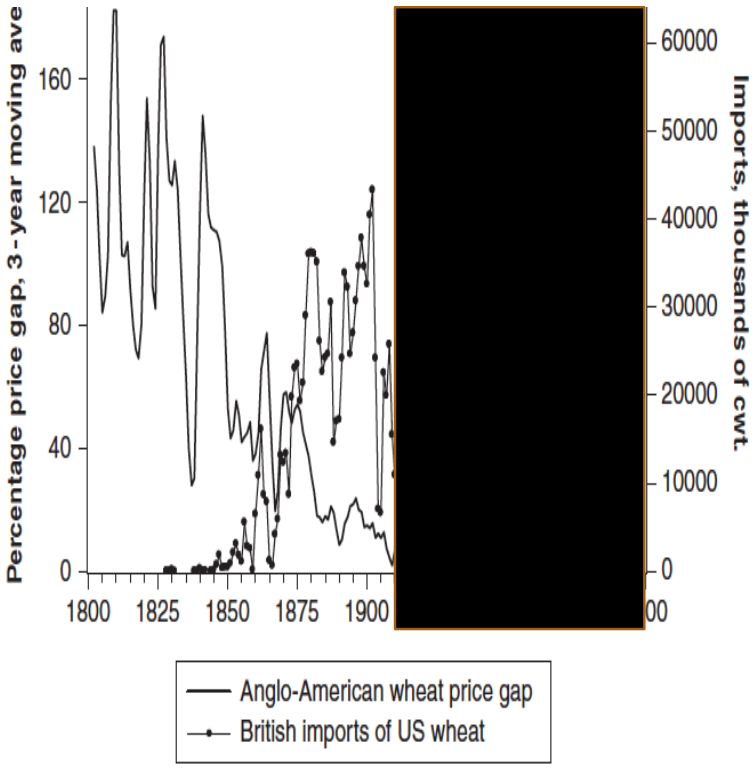
Globalization and Inequality?

1. Belle Époque

2. Any Losers

0. Reminder: Globaliztion Impacts

1st Globalization Trade



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First decade with reduced

Real Wages

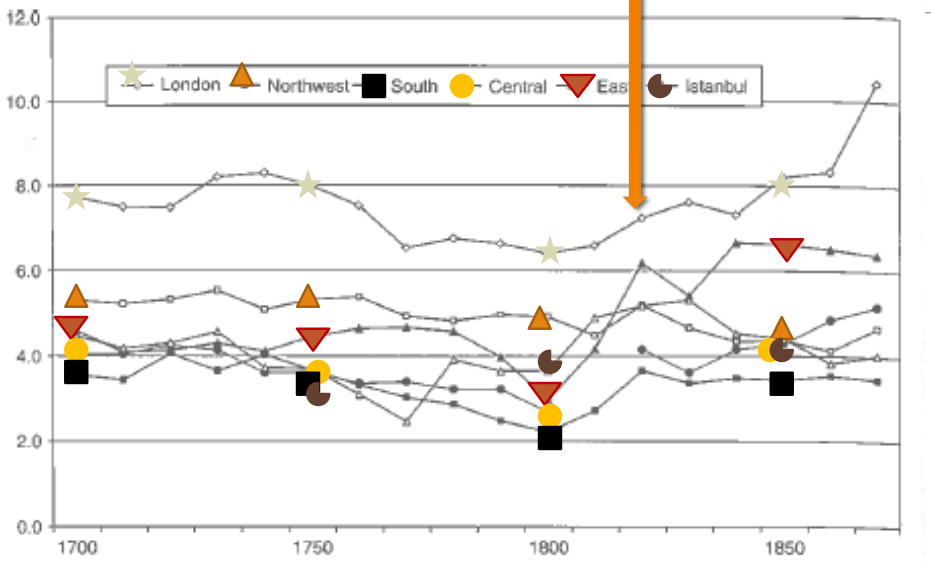


Figure 9.1 Real wages of European unskilled construction workers, 1700–1870 (Allen, 2001; Ozmucur and Pamuk, 2002)

1st Globalization: Capital Flows

Table 2. Main recipients of foreign investment

US dollar billion	1913/1914	%	Cumulative		2001	%	Cumulative
USA	7.1	15.8	16	USA	6277	26.9	27
Russia	3.8	8.4	24	United Kingdom	2204	9.4	36
Canada	3.7	8.2	32	Germany	1866	8.0	44
Argentina	3.0	6.7	39	France	1431	6.1	50
Austria-Hungary	2.5	5.6	45	Netherlands	1027	4.4	55
Spain	2.5	5.6	50	Italy	943	4.0	59
Brazil	2.2	4.9	55	Japan	871	3.7	63
Mexico	2.0	4.4	60	Belgium/Luxemb.	741	3.2	66
India and Ceylon	2.0	4.4	64	Hong Kong	608	2.6	68
South Africa	1.7	3.8	68	Canada	597	2.6	71
Australia	1.7	3.8	72	China	534	2.3	73
China	1.6	3.6	75	Switzerland	521	2.2	76
				...			
				Brazil	443	1.9	
				India	130	0.6	

Note: The figures for end-2001 refer to international liabilities from direct and portfolio investments and long-term bank loans.
Sources: For 1913/1914 the source is Wilkins (1989). For 2001 the data for portfolio debt investments are taken from the International Financial Statistics of the International Monetary Fund (2004), foreign direct investment data come from the World Investment Directory of UNCTAD (2004), loans from commercial banks are taken from the Bank for International Settlements (2004). Debt data for Brazil, China and India were calculating using World Bank statistics: World Bank (2004a). Equity investments were derived from the Coordinated Portfolio Investment Survey of the International Monetary Fund (2003).

1st Globalization: Capital Flows

Table 1 Dates of Financial Crises, 1880-1913

Country	Banking Crisis
Argentina	1890
Argentina	1891
Australia	1893
Austria	1882
Austria	1883
Austria	1884
Belgium	1885
Brazil	1890
Brazil	1891
Brazil	1897
Brazil	1900
Brazil	1901
Chile	1889
Chile	1898
Chile	1907
Denmark	1885
Denmark	1907
Egypt	1907
Finland	1900
France	1882
France	1889
France	1907
Germany	1901

Country	Banking Crisis
Italy	1891
Italy	1893
Italy	1907
Japan	1901
Japan	1907
Mexico	1884
Mexico	1885
Mexico	1907
Mexico	1908
Netherlands	1897
New Zealand	1893
New Zealand	1894
New Zealand	1895
Portugal	1891
Sweden	1897
Sweden	1907
Turkey	1895
UK	1890
USA	1884
USA	1893
USA	1907
Uruguay	1913

Country	Currency Crisis
Argentina	1885
Argentina	1890
Argentina	1908
Brazil	1889
Brazil	1898
Canada	1891
Canada	1893
Canada	1908
Chile	1887
Chile	1889
Chile	1898
Egypt	1900
France	1888
Germany	1893

Country	Sovereign Debt Crisis
Argentina	1890
Brazil	1898
Chile	1880
Greece	1894
Italy	1894
Mexico	1880
Portugal	1892

Country	Currency Crisis
Germany	1907
Greece	1885
India	1891
Italy	1894
Italy	1908
Japan	1900
Japan	1904
Japan	1908
New Zealand	1903
Portugal	1891
Russia	1891
Turkey	1886
Turkey	1903
USA	1891

Country	Sovereign Debt Crisis
Russia	1885
Spain	1882
Spain	1900
Turkey	1880
Uruguay	1891

Notes: Sources for these dates are data Underlying Bordo, Eichengreen, Klingebiel, and Martínez-Peria (2001), Beim and Calomiris (2001) and Reinhart, Rogoff and Savastano (2003). The crisis in Belgium was not dated by BEKM but was highlighted by Buyst and Maes (2007). The debt default in Italy (1894) was discussed in Tattara (2003) and Spain (1900) in Comín (2012).

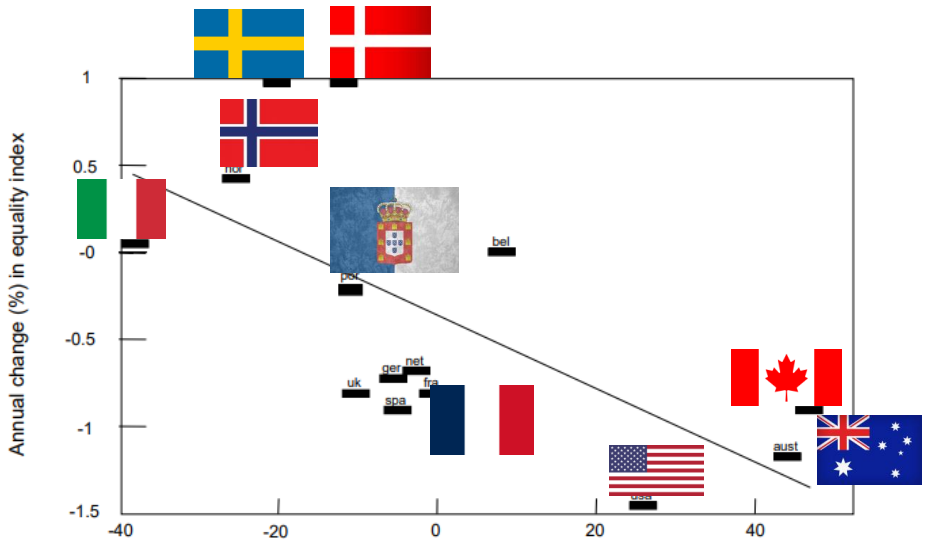
1st Globalization: Labour Flows

	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.				

1st Globalization: Labour Flows

Figure 2

Migration's impact on the labor force



Growth of labor force (% p.a.)

1st Globalization: Labour Flows

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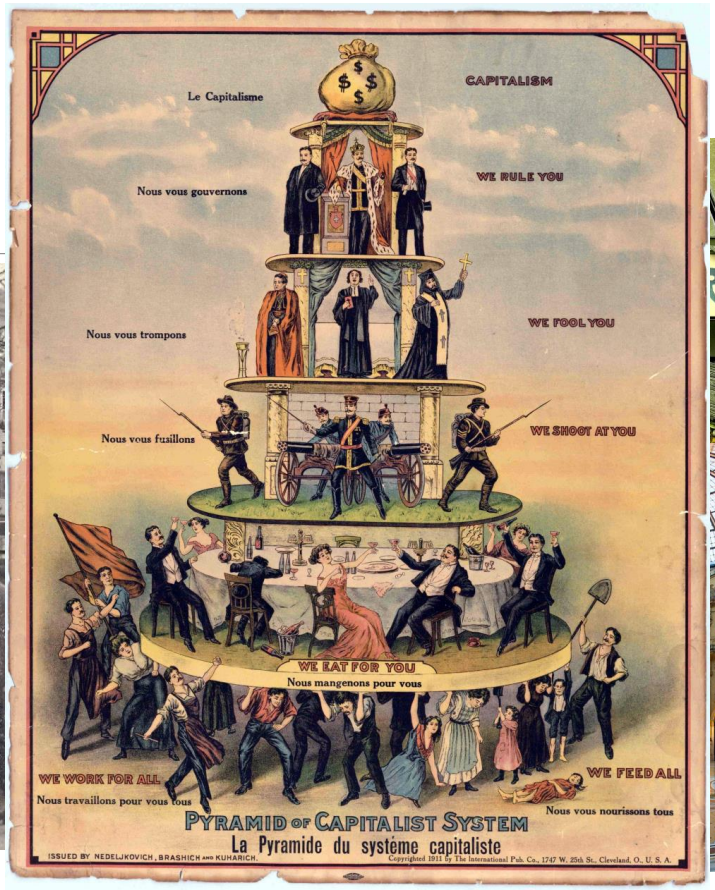
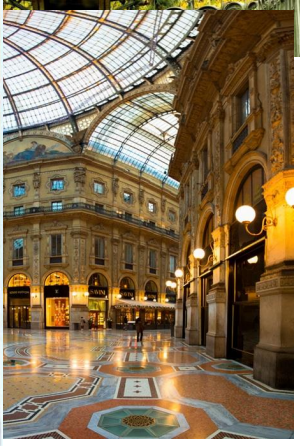
1. *Belle Époque*





Belle Époque: for whom?

- Global Capital Flows
- Multinationals
- Large modern firms
- High Returns w/ foreign and domestic portfolios
- Innovation
- Demand for Capital, not so much for labour

Belle Époque: for whom?

The Condition of the Working Class in England (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 humanbeing."

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

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

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The Communist Manifesto

Written in 1847 and published (in …) in 1848

Created at ta period of social unrest throughout all of Europe:

- Popular rising against high agricultural prices (Ireland, Belgium)
- Revolts for universal voting and political rights (Paris, Berlin)
- Nationalist Revolts (Naples, Budapest, Bucuresti, Prague)


Manifest
der
Kommuniſtiſchen Partei.
Veröffentlicht im Februar 1848.
Proletarier aller Länder vereinigt euch.
London.
Gedruckt in der Office der „Bildungs-Gesellschaft für Arbeiter"
von J. E. Burghard
46, Liverpool Street, Bishopsgate

Unfavourable Conditions for Workers

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. (…)

The *"Satanic Mill"*

Industrialisation has placed workers in their worst ever condition

Does this fit with the data?

Was there a *"Satanic Mill"*?

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

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

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

Why unskilled labourers?

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

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%

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Evolution of the Real Wage (UK)

Despite adverse forces, 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)

Industralized UK vs The Others

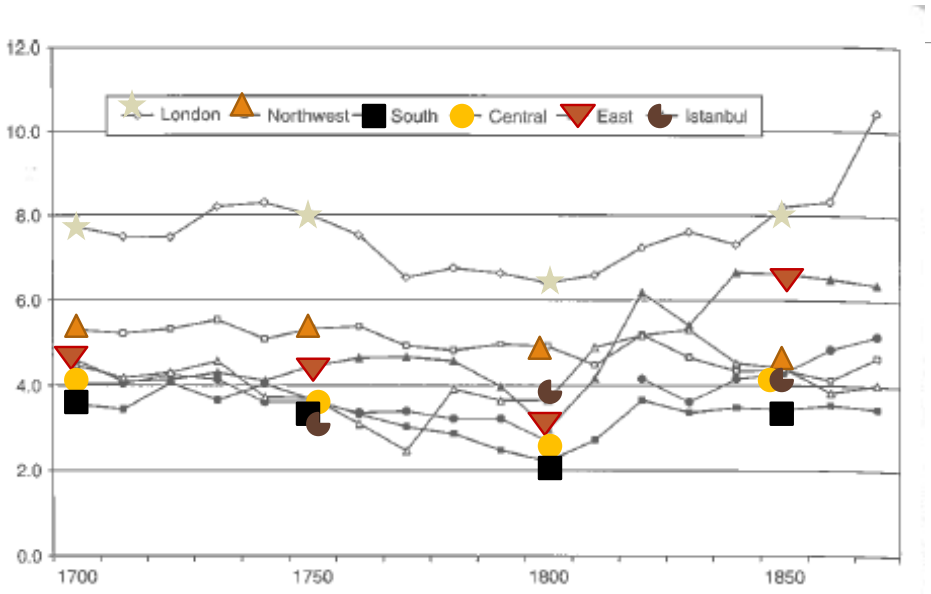


Figure 9.1 Real wages of European unskilled construction workers, 1700–1870 (Allen, 2001; Ozmucur and Pamuk, 2002)

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;

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 CAEs, like Holland or Sweden;

However, LiEx of control group (non-CAEs countries) also increased.

Literacy (indicator = % of adult 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.

Literacy (W, E and S Europe)

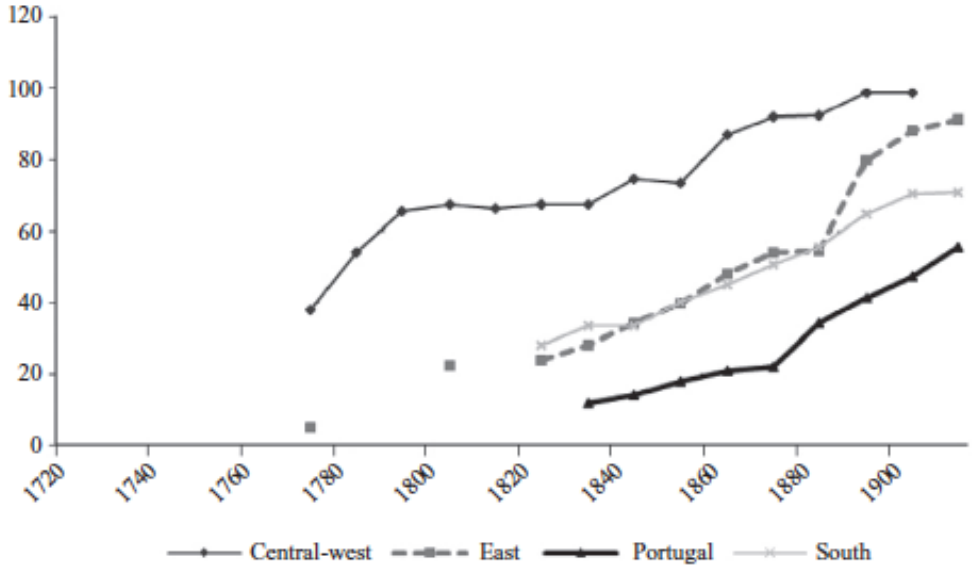
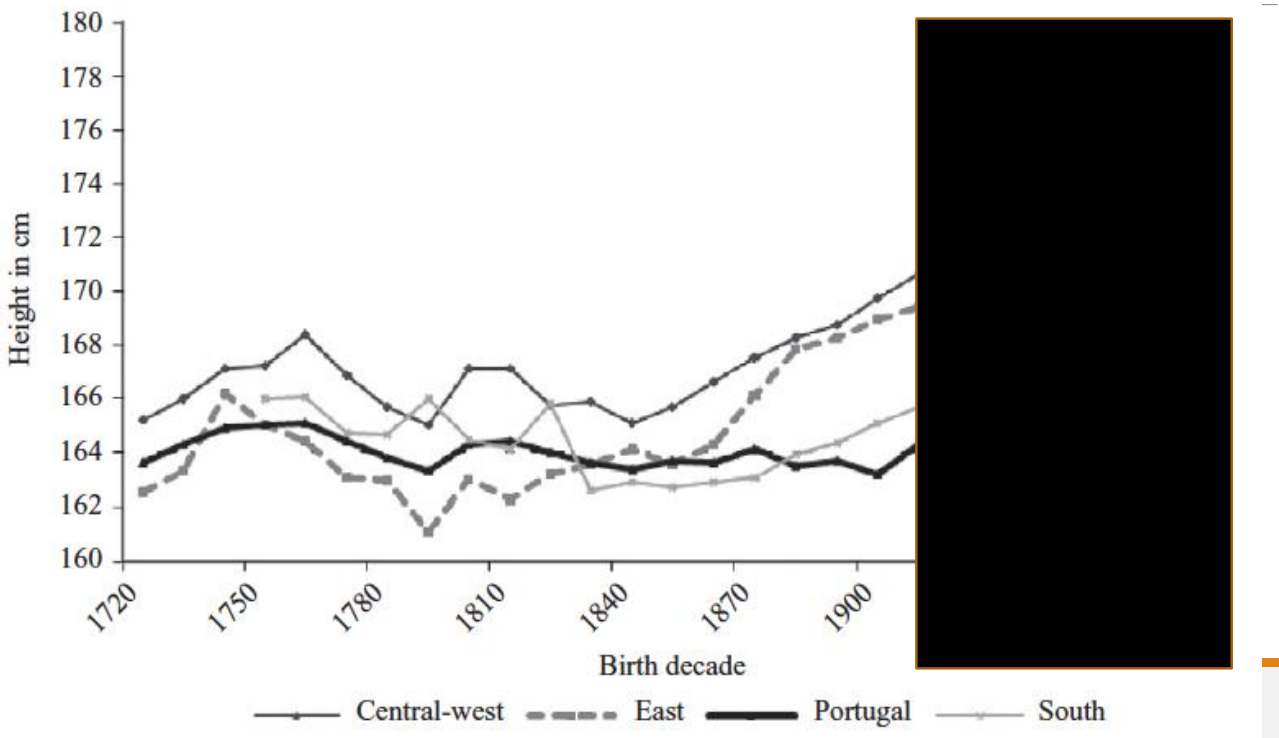


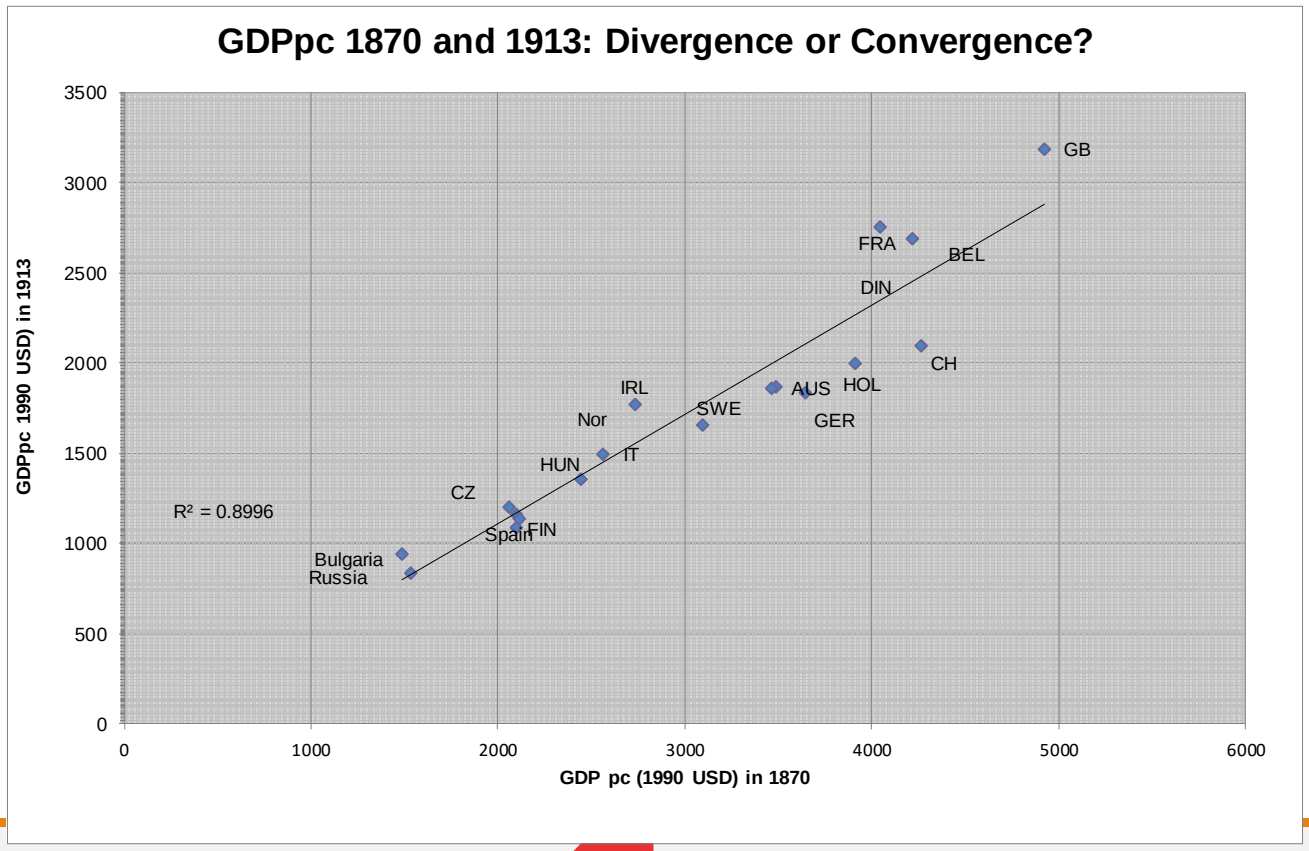
Figure 7. *Panel B: Literacy in Europe late eighteenth to early twentieth century, by birth decade*

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 Tafunell, *Historia económica*; Graff, *Legacies*. Italy: Flora, *State*. Russia: Mironov, 'Literacy'; *Russian Census 1897*. Hungary: Tóth, *Literacy*. Poland: *Первая всеобщая перепись населения Российской Империи 1897*; *United Nations Demographic Yearbook 1963*. Austria: Graff, *Legacies*. Germany: Hofmeister, Prass, and Winnige, 'Elementary education'. France: Gillis, 'Literacy'. Sweden: Johansson, 'History'. Czech and Slovak lands,

Height (W, E and S Europe)





Living Standards

"Real Wages" and other living standards date show observable improvements across the class divide (in industrialised and non-industrialised countries)

- The Liberal Order of the 1st Globalization elevated the condition of the working class, which benefitted from low prices and the possibility to migrate

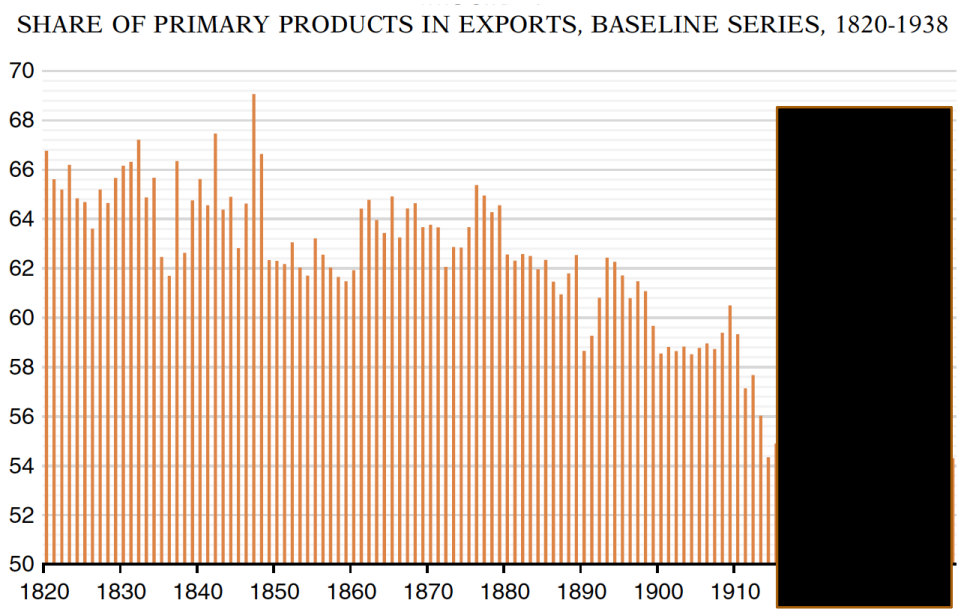
2. Losers?

1st Globalization

This 1st Globalization started with the international division of labour, in whuich poorer countries had na opportunity to identify their comparative advantages

Industrialisation of some economies made agricultural goods too expensive to produce in domestically and increased the demand for raw materials

Early Globalization stimulated trade on agrarian goods

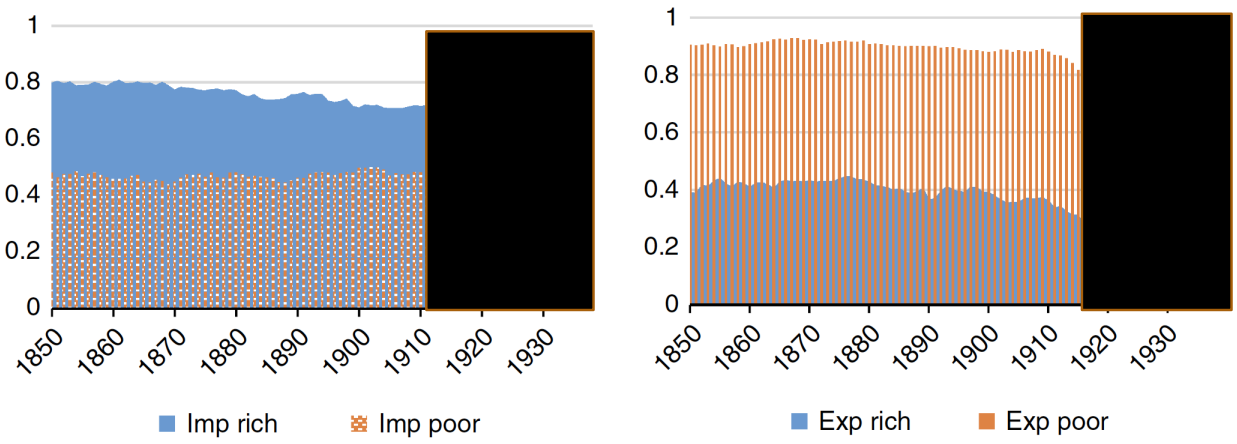


Primary Sector and Globalization

- Limited supply of capital and labour available for international transfer (proximity to the centre benefitted US and Continental Europe)
- Specializing in agricultural and mining production and exchanging their surpluses of primary products for manufactures, in countries where the primary sector was more profitable (or increased more real income)
- Specialisation left economies vulnerable without the mounting demand for foodstuffs and raw materials of the industrializing regions at the centre

Specialization Pattern Emerged

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



Sources: «product composition» http://www.uc3m.es/tradehist_db and text.

Manufactures per Population : Europe and elsewhere (100 = US in 1913)

UK	90
Belgium	73
Germany	64
Switzerland	64
Sweden	50
France	46
Denmark	46
Netherlands	44
Norway	39
Austria	31
Czechoslovakia	28
Finland	27
Italy	20
Hungary	19
Spain	15
Poland	13
Russia	9
Yugoslavia	6
Romania	6
Greece	4

Canada	84
Australia	75
New Zealand	66
Argentina	23
Chile	17
Japan	6
Mexico	5
South Africa	5
Brazil	2
India	1

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 Angola, 1887-1912, rubber represented 64% of exports.
- In Nigeria, 1881-1889, palm oil (and by-products) represented 75% of exports

The Danger of Enclave Economies

- 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....
- While these economies grew, there are little signs of convergence after 1870 (see next slide)

Between-country Convergence or Divergence?

Unweighted comparison of mean income

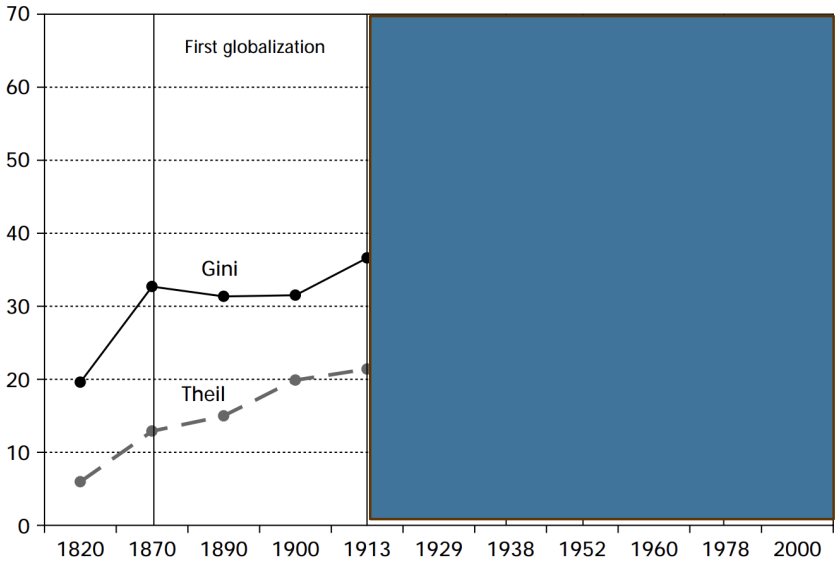


Figure 2.1 Concept 1 inequality, 1820–2000

Even more important were ‘self-imposed limits’

- “the major obstacles to the diffusion of modern technology were to be found within countries rather than between them“ (Text 3, 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,

National: the roles of the state

- Influence of the political landscape “the socio-political fabric”
  - In France, strong concern for continuity meant that technical change was relatively slow and that the government did not play a major role in promoting economic development.
  - In Germany, on the other hand, achieved rapid industrialization led by the state, despite the fact that the old order retained much of its force.
  - Denmark and Sweden created expansionary economies as much by changing the direction of their economic efforts as by altering the structure of their institutions or the habits of their peoples.

The Archetypical contrast: 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)

Between-country Convergence or Divergence?

Weighted comparison of mean income (See the difference, when large countries with low growth like China and India are factored in)

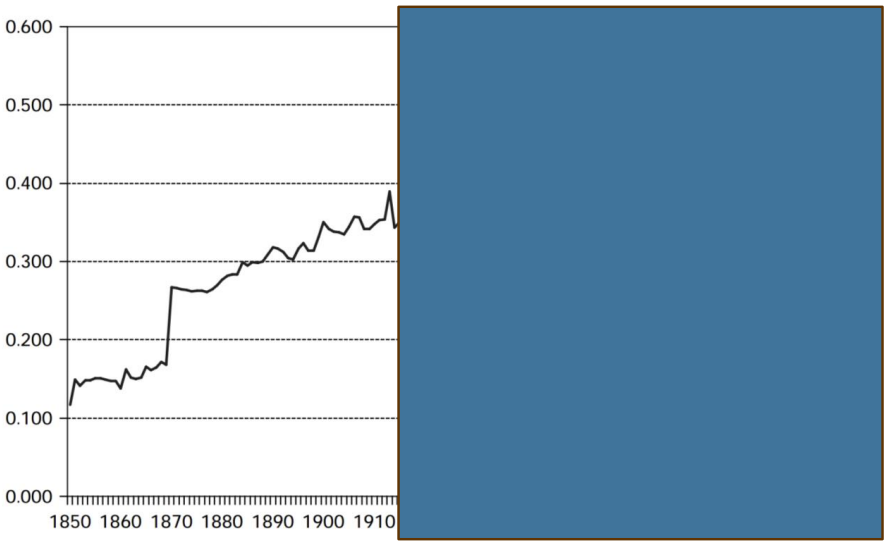


Figure 2.2 Concept 2 inequality (Gini coefficient), 1820–2000

Source: Calculated from Maddison (2004)

Conclusion of Text 2

"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 3, p. 10)