(2478) Economic History.

UNIT 4. The Establishment of a World Economy.

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37 38
CAMPUS MARE NOSTRUM

4. The Establishment of a World Economy.

4.1. Introduction.

4.2. The International Trade and the Integration of the Markets.

4.3. The Colonization and the Economic Imperialism.

4.4. The International Financial System.

4.5. The Ascend of the Corporations.

4.6. Conclusions.

- **Textbook**:

- CAMERON, Rondo E., NEAL, Larry. 2003. “12. The Growth of the World Economy.” *Concise Economic History of the World: From Paleolithic Times to the Present*, Oxford University Press, 362-370 (sections) (4th Edition).
- CAMERON, Rondo E., NEAL, Larry. 2003. “14. International Economic Disintegration.” *Concise Economic History of the World: From Paleolithic Times to the Present*, Oxford University Press, 339-361 (sections). (4th Edition).

- **Other references**

- CHANDLER, Alfred D. 1977. *The Visible Hand: The Managerial Revolution in American Business*. Harvard University Press.

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- **Other references:**

- GUINNANE, Timothy; Ron HARRIS, Naomi LAMOREAUX and Jeant-Laurent, ROSENTHAL. 2007. “Putting the Corporation on its place.” *Enterprise and Society*. 8 (3), 687-729.
- The Economist. 2016. “America´s corporate world alternates between competition and consolidation.” September 17th.[http://www.economist.com/news/special-report/21707051-americas-corporate-world-alternates-between-competition-and-consolidation-what-goes-around].

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- **Other references:**

- MOKYR, John. 1998. “The Second Industrial Revolution”. Working Paper. Northwestern University. [https://sites.northwestern.edu/jmokyr/files/2016/06/The-Second-Industrial-Revolution-1870-1914-Aug-1998-1ubah7s.pdf].
- PALAFOX, Jordi (ed.). 2014. *Los tiempos cambian. Historia de la economía*. Tirant Humanidades. Online files. [http://www.ehvalencia.es/index.php/docencia].
- VVAA. “First Era of Modern Globalization to 1914.” http://www.americanforeignrelations.com/E-N/Globalization-First-era-of-modern-globalization-to-1914.html#ixzz4OnlhUwuk.

- **4.1 Introduction.**
- “From about 1850 to 1914 an international economy existed, managed by Great Britain, resting on free trade and open capital markets […]. It was in the midst of this first international industrial economy that the United States rode to world power on the strength of its economic muscle and competed with Europeans, spurred on by production and technological inventions.”

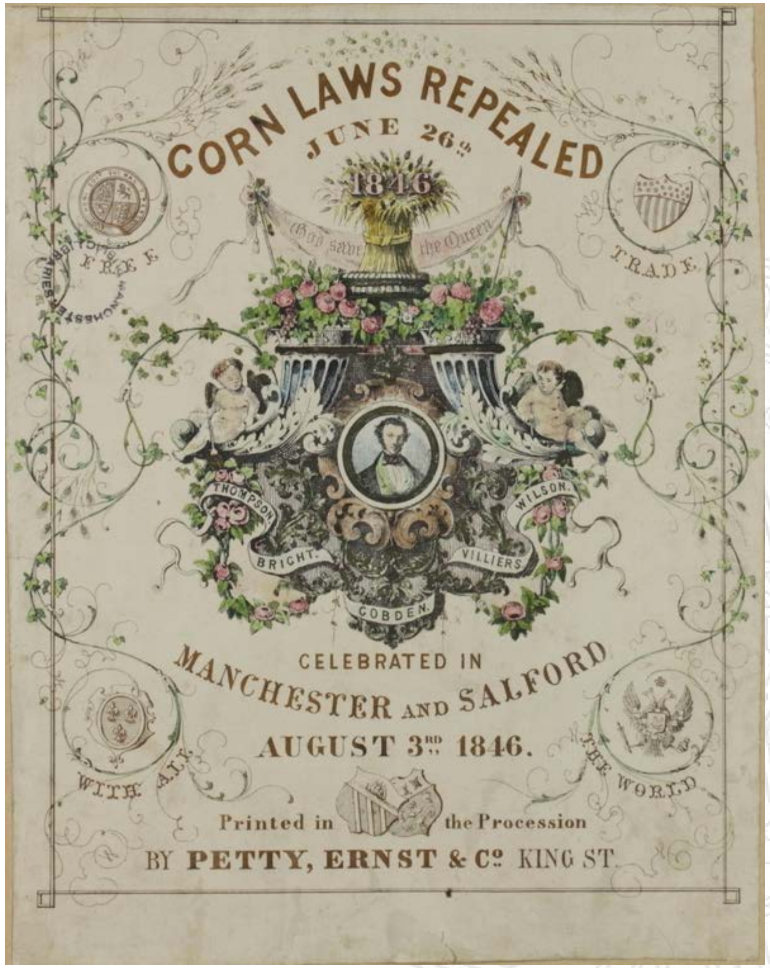
- Source: VVAA. “First Era of Modern Globalization to 1914.” [http://www.americanforeignrelations.com/E-N/Globalization-First-era-of-modern-globalization-to-1914.html#ixzz4OnlhUwuk]

- **4.1 Introduction.**

- The impact of the technology:
    - MOKYR, John. 1998. “The Second Industrial Revolution”. Working Paper. Northwestern University [https://sites.northwestern.edu/jmokyr/files/2016/06/The-Second-Industrial-Revolution-1870-1914-Aug-1998-1ubah7s.pdf].

4.2. The International Trade and the Integration of the Markets: The Free Trade Era.

- Britain opted for Free Trade.
  - A. Smith & D. Ricardo were concerned with free international trade, as can be seen in their essays.
  - Parliament repealed:
    - Corn Laws.
    - Navigation Acts.
- Anglo-French Treaty:1860.
  - Treaty Cobden-Chevalier: Most-Favored-Nation Clause.



Source: On Line Liberty Library. http://oll.libertyfund.org/pages/cobden-and-the-anti-corn-law-league

4.2. The International Trade and the Integration of the Markets: The Free Trade Era.

- What did the treaty achieve?
- **Britain:** removed all tariffs on imports of French goods.
    - Exception: spirits.
        - Reason: to protect the Portuguese preference in the British market.
- **France:** Removed its prohibition of British textiles and reduced tariffs on a wide range of British goods to a maximum of 30%.
        - Average tariff was about 15% ad valorem [over assessed value].

4.2. The International Trade and the Integration of the Markets: The Free Trade Era.

- What did the treaty achieve?
- Inclusion of a most-favored-nation (MFN) clause:
  - “If one party negotiated a treaty with a third country, the other party to the treaty would automatically benefit from any lower tariffs granted to the third country”.
- This clause spread the free trade era in Europe.
- **NOTE**: MFN Clause: World Trade Organization.

4.2. The International Trade and the Integration of the Markets: The Free Trade Era.

This clause spread the free trade era in Europe:

- Great Britain: no bargaining power to negotiate new treaties.
- France still had high tariffs on imports of goods from other countries.
  - 1860s: negotiated treaties with Belgium, the Zollverein, Italy, Switzerland... among others.

4.2. The International Trade and the Integration of the Markets: The Free Trade Era.

- The other European countries also negotiated treaties with one another.

- 1860 & 1870 Europe came as close to completing free trade as it would until after WWII.

- Another consequence of the integration of the international economy was the synchronization of price movements across national borders.

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FIGURE 12–1. The Europe of the trade treaties, about 1871.

Cameron & Neal (2003): Figure. 12-1.

Did you know…?

Richard Cobden was appointed by the British government to sign the Treaty on its behalf. Cobden was an entrepreneur and manufacturer. Michel Chevalier was Minister of the Interior under Napoleon III.

Source: OnLine Liberty Library. http://oll.libertyfund.org/pages/cobden-and-the-anti-corn-law-league.

4.2. The International Trade and the Integration of the Markets: International Migrations.

- The most significant international migration was overseas migration.
  - Some international migration took place within Europe.
- 60 million people left Europe for overseas destinations.
- Europeans left their homeland:
  - Escaping from the Malthusian Trap (Unit 1).
  - Looking for (free) land.
  - Political reasons.

Palafox (2013, 153).

Table 5.1.

th
Valencia, 2014

Cuadro 5.1. Migraciones en masa y convergencia en la economía Atlántica, 1870–1910.

	Tasa migratoria neta (Millares por año)	Impacto acumulado sobre la población (%)	Tasa migratoria de la población activa (Millares por año)	Impacto acumulado sobre mercado de trabajo (%)	Impacto de la migración sobre salarios reales (%)	Impacto de la migración sobre el PIB per cápita (%)
Argentina	11.74	60	15.50	86	–21.5	–8.2
Brasil	0.74	3	0.98	4	–2.3	–0.5
Australia	6.61	30	8.73	42	–14.6	–6.8
Estados Unidos	4.03	17	5.31	24	–8.1	–3.3
Canadá	6.92	32	9.14	44	–15.6	–7.6
Gran Bretaña	–2.25	–9	–2.97	–11	5.6	2.8
Italia	–9.25	–31	–12.21	–39	28.2	14.2
Alemania	–0.73	–3	–0.96	–4	2.4	1.3
Irlanda	–11.24	–36	–14.84	–45	31.9	n.d.
Suecia	–4.20	–15	–5.55	–20	7.5	2.5
España	–1.16	–5	–1.53	–6	5.9	0.0

Nota. En la primera y tercera columna el signo menos significa emigración. (n.d.= no disponible). El impacto acumulado hace referencia al porcentaje de crecimiento de la población o de la población activa que se deriva de la incorporación del total de población emigrada a lo largo de los años 1870–1913 a cada uno de los destinos.

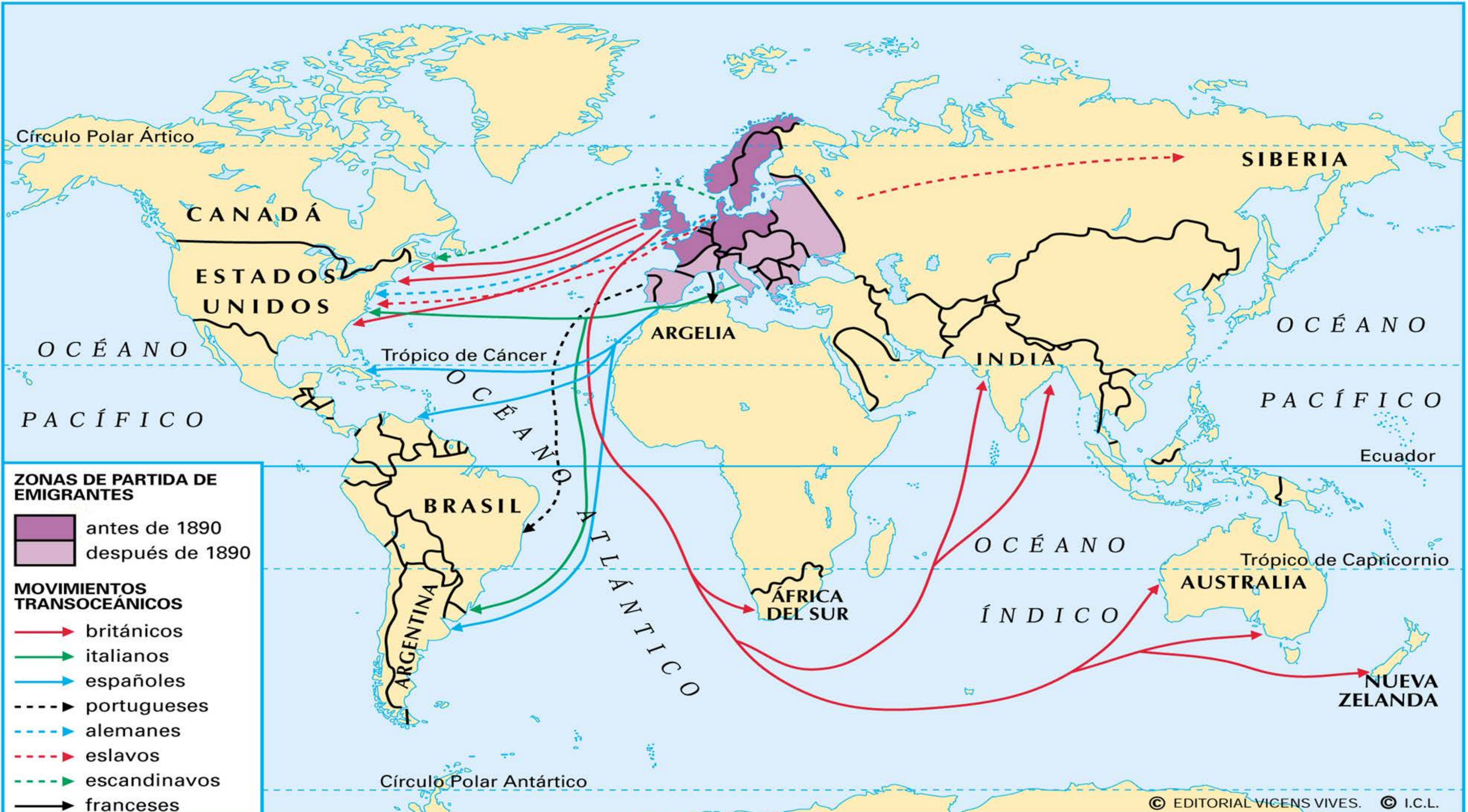
Fuente: Taylor, A. M. y Williamson, J. G. (1997), "Convergence in the Age of Mass Migration", European Review of Economic History, 1, pp. 27–63 y O'Rourke, K. H. y Williamson, J. G. (1999), Globalization and History: the evolution of a nineteenth century Atlantic economy, Cambridge (Massachusetts), Cambridge University Press.

4.2. The International Trade and the Integration of the Markets: International Migrations.

- The British Isles saw the largest number of emigrants leave.
  - Destination: United States & Latin America.
- German citizens went to the US and Latin America.
- Late 19th and early 20th Centuries: Italy and Western Europe.
  - Italians: the US, and (also) Latin America (Argentina).
  - Emigrants from Austria-Hungary, Poland and Russia: the US.
  - Spaniards: Latin America (the US in the mid 20th Century).

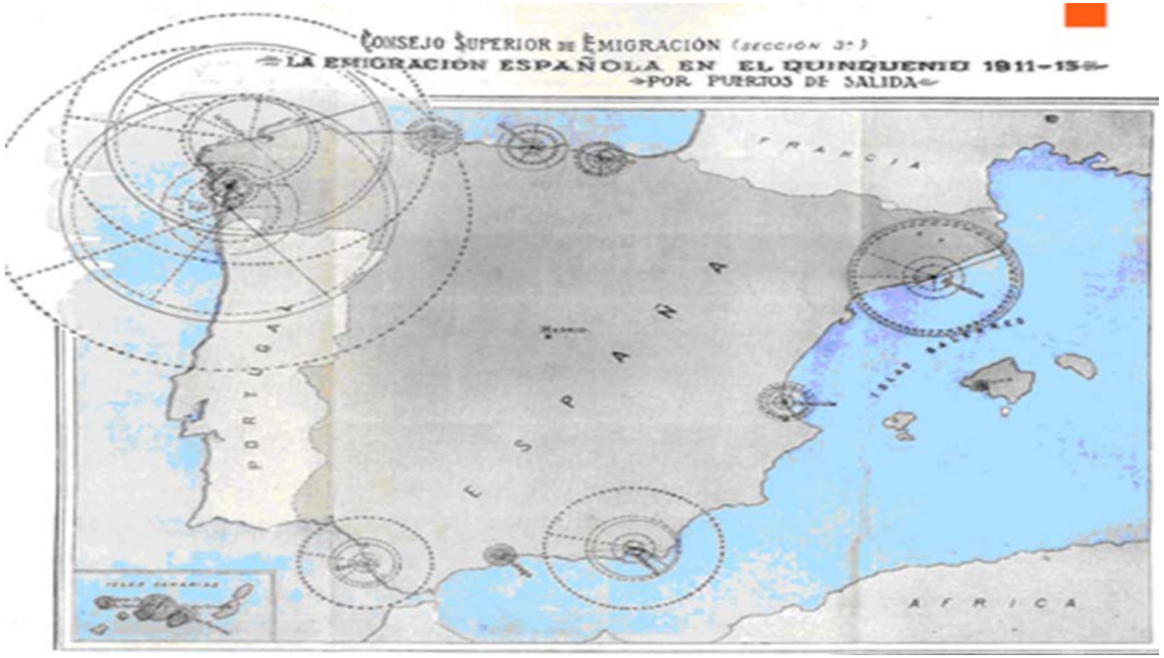
4.2. The International Trade and the Integration of the Markets: International Migrations.

- The majority of migrants went to countries with abundant land:
  - United States: took 35 millions.
  - Newly settled areas of the British empire: 10 millions.
  - Latin America: 12-15 millions.


Círculo Polar Ártico
SIBERIA
CANADÁ
ESTADOS UNIDOS
OCÉANO
PACÍFICO
ARGELIA
Trópico de Cáncer
OCÉANO ATLÁNTICO
INDIA
OCÉANO
PACÍFICO
Ecuador
BRASIL
ARGENTINA
ÁFRICA DEL SUR
OCÉANO ÍNDICO
Trópico de Capricornio
AUSTRALIA
NUEVA ZELANDA
ZONAS DE PARTIDA DE EMIGRANTES
antes de 1890
después de 1890
MOVIMIENTOS TRANSOCEÁNICOS
británicos
italianos
españoles
portugueses
alemanes
eslavos
escandinavos
franceses
Círculo Polar Antártico
© EDITORIAL VICENS VIVES. © I.C.L.

Did you know that…?

- During the last third of the 19th Century Spain, and mainly regions such as Galicia and the Canary Islands, became a net emigration country. Between 1880 and 1936 the Galician population reached the borders of Cuba, Argentina, and Brazil.



Task 1.

- Some of the emigrants eventually returned to their native countries but the vast majority remained overseas.
- Do you have any relative who migrates to America during the period 1870-1945?

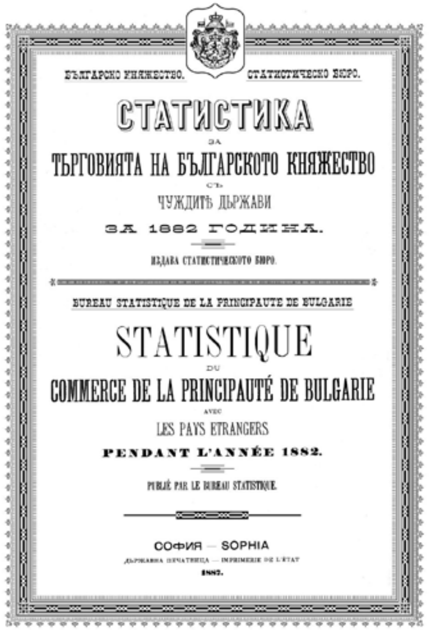
4.2. The International Trade and the Integration of the Markets: International Migrations.

- Migration had beneficial effects:

1. It relieved population pressures in the origin countries.
   - Less pressure on real wages.
2. It provided labour for destination countries.
3. It promoted the integration of the international economy:
   - Economic ties.
   - **Remittances of capital.**
4. It enhanced human and cultural ties.

4.2. The International Trade and the Integration of the Markets: Capital Investment.

- Foreign investment reached unprecedented magnitudes in the 19th and early 20th Centuries.
- Source of this capital:
  - Commodity trade (exports of goods).
    - Manufactured goods.
    - Raw materials.



БЪЛГАРСКО КНЯЖЕСТВО. СТАТИСТИЧЕСКО БЮРО.

СТАТИСТИКА

ЗА

ТЪРГОВИЯТА НА БЪЛГАРСКОТО КНЯЖЕСТВО

СЪ

ЧУЖДИТѢ ДЪРЖАВИ

ЗА 1882 ГОДИНА.

ИЗДАВА СТАТИСТИЧЕСКОТО БЮРО.

BUREAU STATISTIQUE DE LA PRINCIPAUTE DE BULGARIE

STATISTIQUE

DU

COMMERCE DE LA PRINCIPAUTÉ DE BULGARIE

AVEC

LES PAYS ETRANGERS

PENDANT L'ANNÉE 1882.

PUBLIÉ PAR LE BUREAU STATISTIQUE.

СОФИЯ — SOPHIA

ДЪРЖАВНА ПЕЧАТНИЦА — IMPRIMERIE DE L'ÉTAT

1887.

Source: 'Foreign Trade Statistics of Bulgaria' http://www.nsi.bg/en/content/13589/foreign-trade-bulgaria-digital-format .

4.2. The International Trade and the Integration of the Markets: Capital Investment.

- Foreign investment reached unprecedented magnitudes in the 19th and early 20th Centuries.
  - Arising from “invisible” exports:
    - shipping services.
    - international banking and insurances services.
    - emigrant remittances.
    - dividends on previous foreign investments.

4.2. The International Trade and the Integration of the Markets: Capital Investment.

- **Investing countries.**
- **Great Britain:** largest foreign investor before 1914.
  - Source of foreign investment: invisible exports.
  - After 1870s earnings from previous investments provided funds to cover all new investments.

4.2. The International Trade and the Integration of the Markets: Capital Investment.

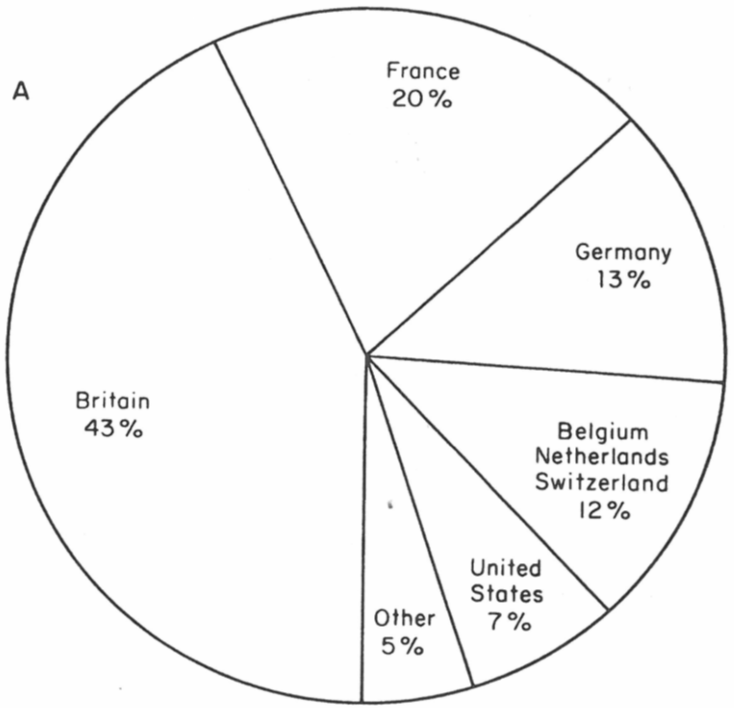
- **Investing countries. France**: second largest foreign investor .
  - Made the transition from net debtor to net creditor:
    - Early 19th Century France borrowed abroad (Napoleonic wars).
    - Quickly established a large export surplus in the commodities trade.
  - At the end of the 19th Century, French (new) investments were financed by earnings from previous investments.
    - 1914: 25% of all French foreign investment was in Russia. (Lenin repudiated all the debts…).

4.2. The International Trade and the Integration of the Markets: Capital Investment.

- **Investing countries. Germany**

(also) made the transition from net debtor to net creditor

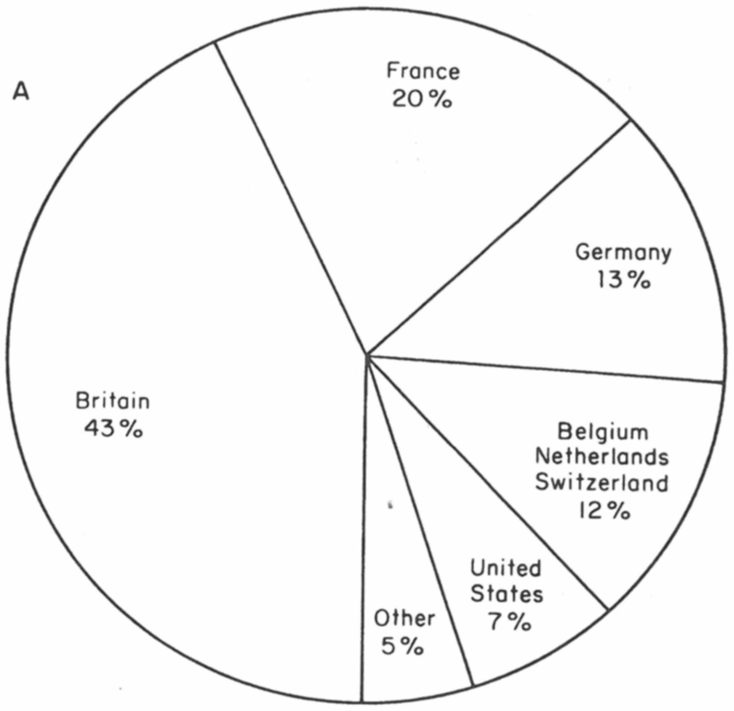
- Most investments: poor neighbours to the east & southeast.
- Scattered investments elsewhere (colonies).



Cameron & Neal (2003):Figure 12-4: Investment by countries

4.2. The International Trade and the Integration of the Markets: Capital Investment.

- **Investing countries. Germany.**
- The German government tried to use private foreign investment as a weapon for foreign policy (like the French government):
- Ex: In 1887 the government ordered to close the Berlin stock exchange to the Russian securities.



Cameron & Neal (2003):Figure 12-4: Investment by countries

Did you know…?

The German government tried to use private foreign investment as a weapon for foreign policy:

"During the last half of 1887 tensions between Germany and Russia increased

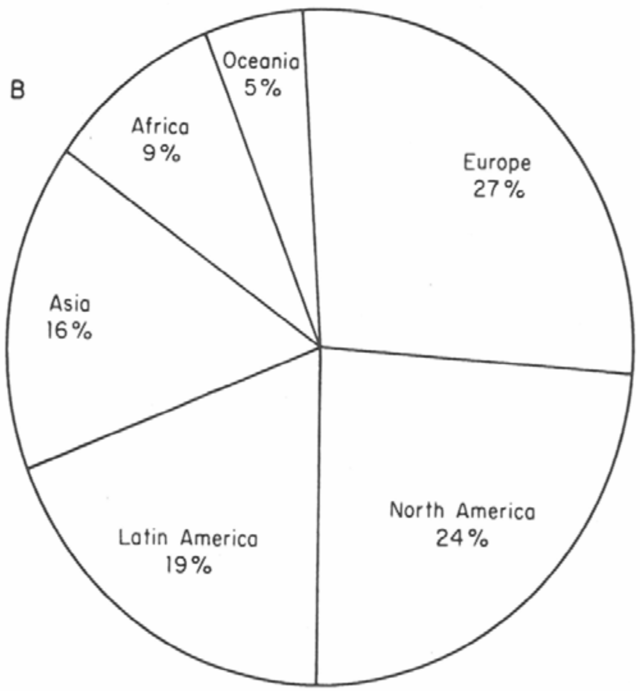
Since June, the Berlin stock market had been unsettled by government inspired newspaper stories about the instability of Russ securities, whose prices declined, along with the value of the rubble. On November 10, 1887, the German government, acting on Bismark´s advise, ordered the Reichsbank to cease using Russian Securities as collateral (the famous Lombardverbot) – a practice unique to the Reichsbank among European Banks. Sell orders inundated the bourse and the price of Russian state bonds fell dramatically. By this manoeuvre Bismarck wished to make it difficult for Petersburg to finance the military campaign [against Germany]."

Did you know that…

- Russian Securities as collateral (the famous Lombardverbot) – a practice unique to the Reichsbank among European Banks. Sell orders inundated the bourse and the price of Russian state bonds fell dramatically. By this manoeuvre Bismarck wished to make it difficult for Petersburg to finance the military campaign [against Germany].”
- Source:
- PFLANZE, Otto. 1990. *Bismarck and the Development of Germany. V.III. The Period of Fortification, 1880-1898.* Princeton Legacy library, 269.

4.2. The International Trade and the Integration of the Markets: Capital Investment.

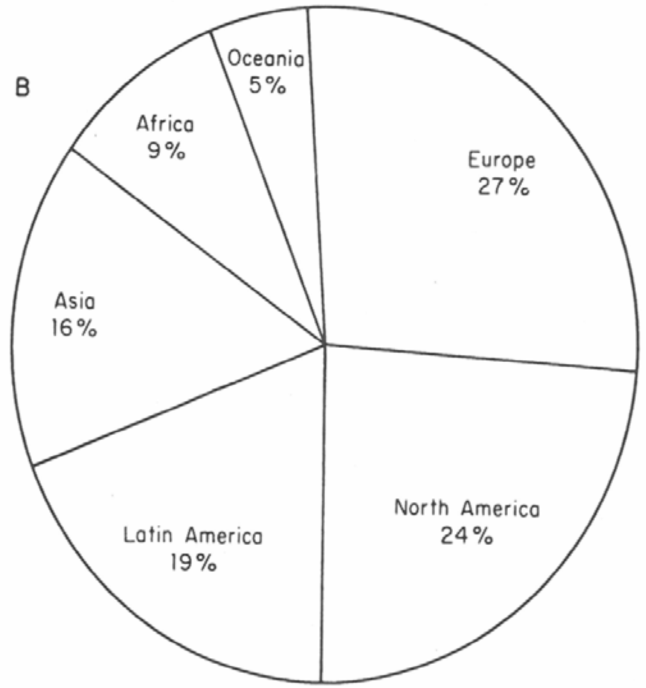
- **Destination countries.**
- **The US:** the largest recipient of overseas foreign investment.
- Since 1890 American investors began to purchase foreign securities. Also the **corporations** began to invest directly abroad.
  - Latin America.
  - Canada.



Cameron & Neal (2003):Figure 12-4: Investment by destination

4.2. The International Trade and the Integration of the Markets: Capital Investment.

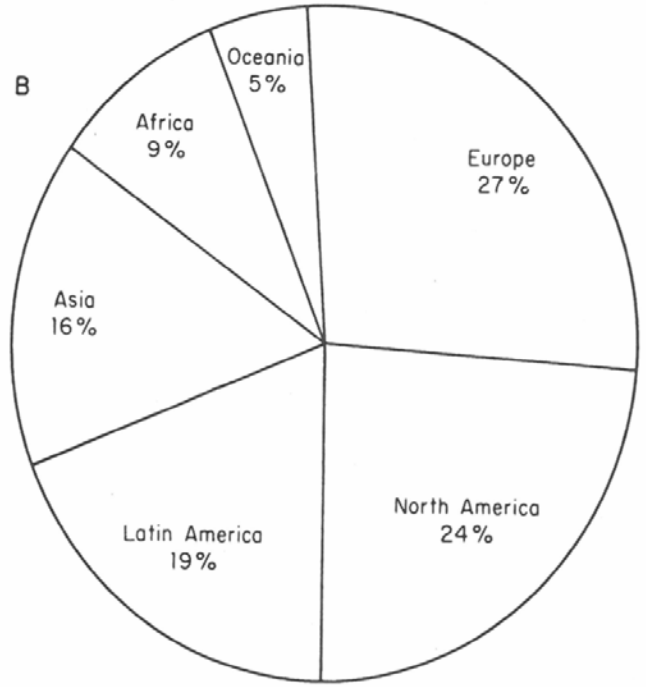
- **Destination countries.**
- **Russia**: the largest recipient of European foreign investment.
- ➔Railway network, private & public securities, government bonds, corporations, great metallurgical enterprises.



Cameron & Neal (2003):Figure 12-4: Investment by destination

4.2. The International Trade and the Integration of the Markets: Capital Investment.

- **Destination countries.**
- **Scandinavian countries, Australia, New Zealand and Canada:** they had large foreign investments in relation of their population. Destination:
  - Public securities.
  - Railway, port facilities, public utilities.
  - Australia and Canada: mining.



Cameron & Neal (2003):Figure 12-4: Investment by destination

UNIT 4.3. **The Colonization and the Economic Imperialism.**

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Task 2.

Colonization and the Economic Imperialism.

Cameron and Neal (2003, 308):

Figure 12-5. The partition of Africa in 1914.

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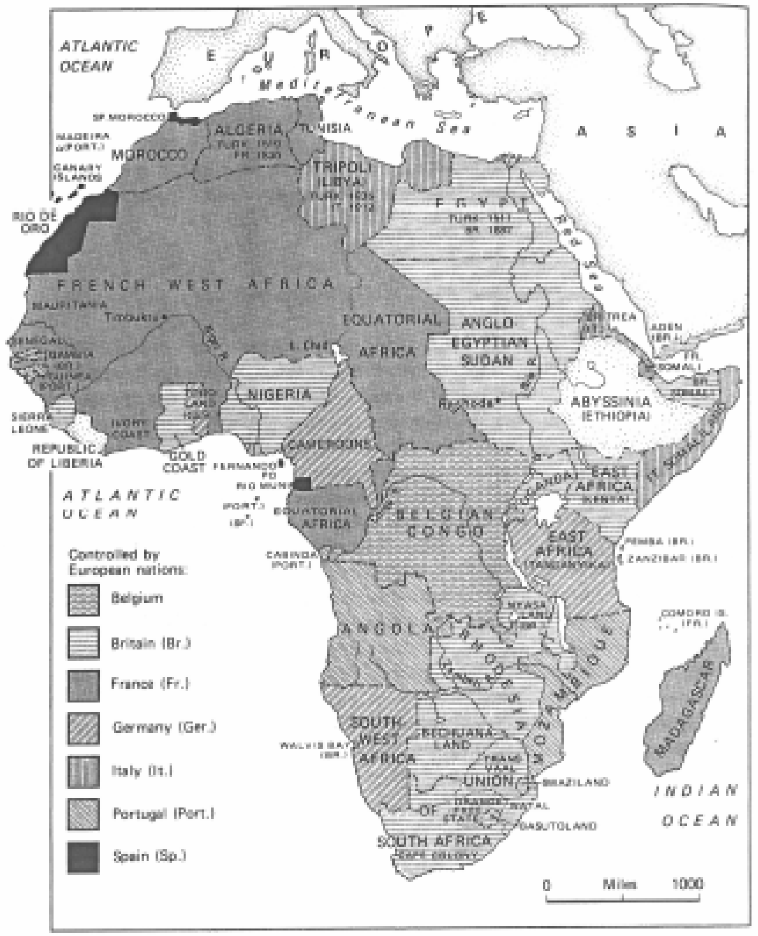


FIGURE 12–5. The partition of Africa to 1914.

Task 2.

Colonization and the Economic Imperialism.

Cameron and Neal (2003, 308): Figure 12-6. Imperialism in Asia and Pacific to 1914

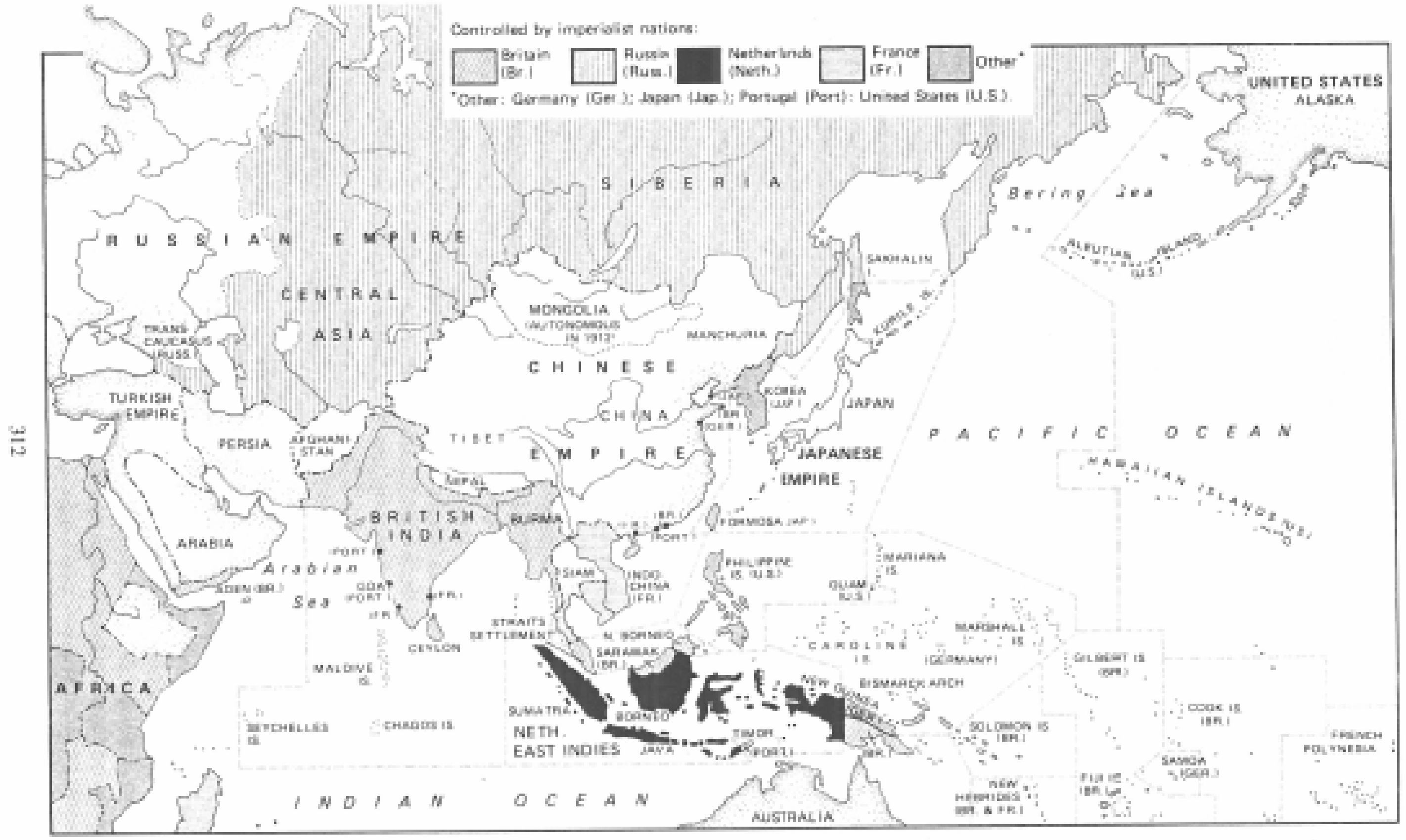


Figure 12–6. Imperialism in Asia and the Pacific to 1914.

4.4. The International Financial System.

NOTE:

Paper money became popular (in the West) during the 18th Century.

- Circulation with coins: uncomfortable for big transactions.
- Sweden issued the first European banknotes in 1661.

Source: http://colin-narbeth.com/pages/the-development-of-paper-money.

4.4. The International Financial System.

NOTE:

Banks issued paper notes that could be converted into gold/silver by application at the bank.

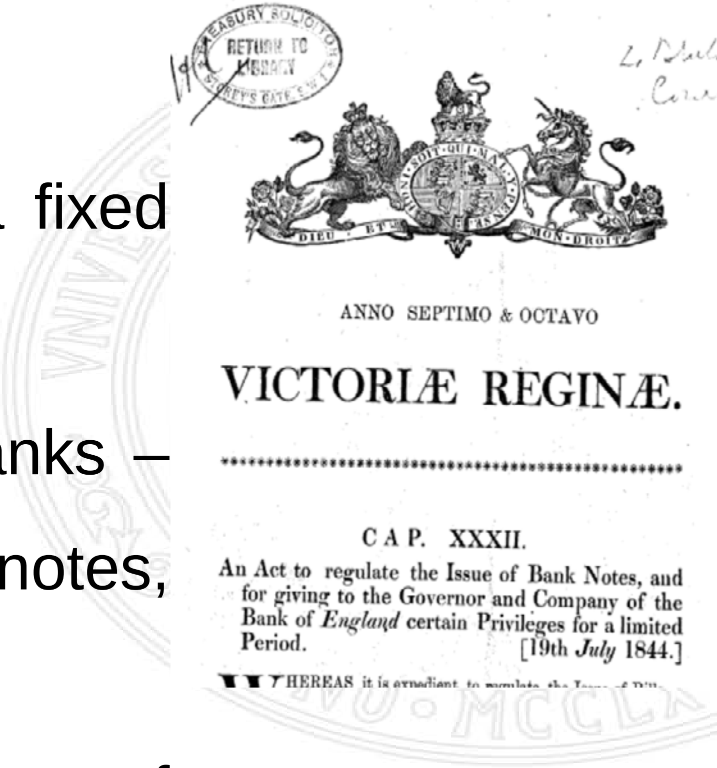
- Banks kept bullion in deposit to service the exchange.
- If banks issued notes in excess of their bullion, they lost public confidence➔ a massive redemption of banknotes ➔ bankruptcy.

4.4. The International Financial System.

- **The Gold Standard monetary system:** the standard unit of currency is a fixed quantity of gold.
  - bank deposits and notes were freely converted into gold at the fixed price.
- The **International Gold Standard System** was a commitment by participating countries to fix the prices of their domestic currencies in terms of a specified amount of gold.

4.4. The International Financial System.

- Britain adhered to the gold standard for most of the century.
- Act of the parliament creating a gold standard. Conditions.
  1) The **Royal Mint** was obliged to buy and sell gold at a fixed price.
  2) The **Bank of England** – and by extension, all other banks – was obliged to exchange its monetary liabilities (banknotes, deposits) into gold on demand.
  3) No restrictions could be imposed on the import or export of gold.


ANNO SEPTIMO & OCTAVO

VICTORIÆ REGINÆ.

CAP. XXXII.

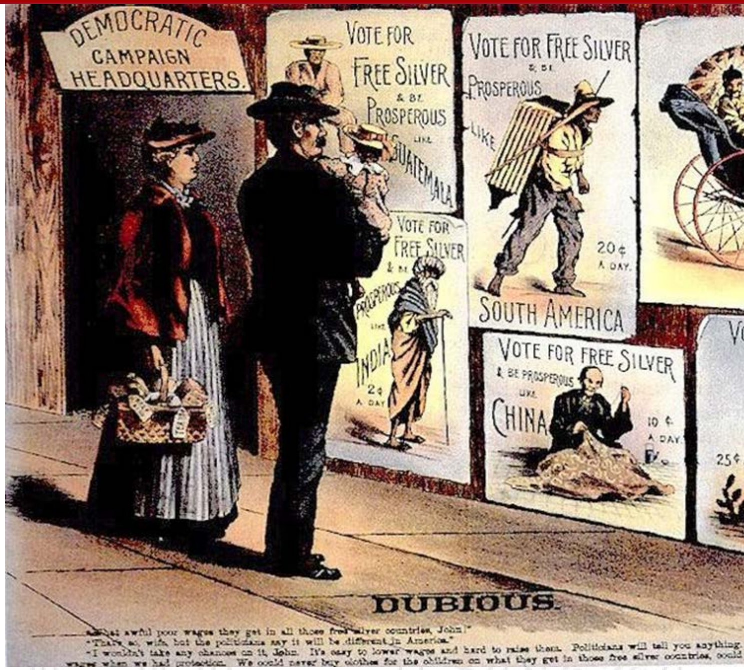
An Act to regulate the Issue of Bank Notes, and for giving to the Governor and Company of the Bank of England certain Privileges for a limited Period. [19th July 1844.]

4.4. The International Financial System.

- The gold served as the ultimate reserve of the entire monetary supply of the country.
- The amount of gold in the Bank of England determined the amount of credit it could extend in the form of banknotes and deposits.
    - It determined the amount of credit the banks could extend.
- The movement of gold into and out the country caused fluctuations in the total money supply, which in turn caused fluctuations in the movement of prices.
    - Large inflows could caused inflation: Gold strikes in California and Australia 1849-51.

4.4. The International Financial System.

- Until the last quarter of the 19th C most countries were on either silver of bimetallic standards.
- After Britain, the first nation which officially adopted the gold standard was Germany.
  - Other countries joint it ➔ increasing weight of Germany in the international trade.
- The United States was on the gold standard from 1879, although the Congress passed it formally in 1900.



Propaganda poster of the elections of the United States. By 1896 posters, Public Domain, https://commons.wikimedia.org/w/index.php?curid=1808092.

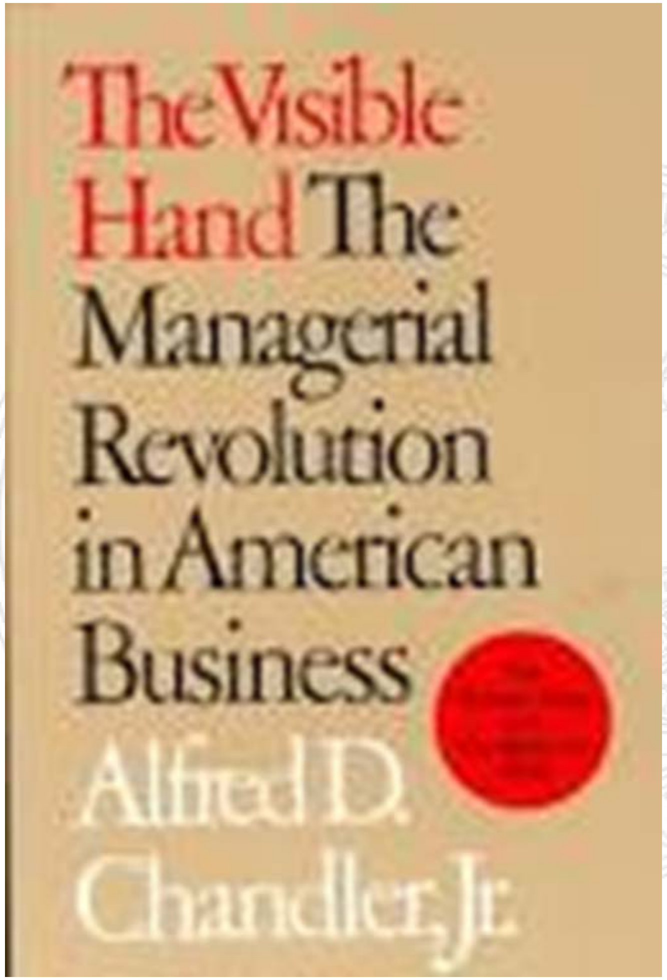
	1820	1840	1860	1880	1900	1913
Gran Bretaña	1821					
Alemania				1871		
Francia				1878		
EEUU				1879		
Bélgica				1878		
Holanda				1875		
Noruega				1875		
Dinamarca				1872		
Suecia				1873		
Austria					1892	
Rusia					1897	
Italia				1884		
España					NO ENTRÓ	
Grecia					1910	
Portugal			1854		1891	

- **Did you know what it was the Latin Monetary Union?**
- France, Belgium, Italy and Switzerland agreed in December 1865 to change their national currencies to a standard of 4.5 grams of silver (0.290 grams of gold) and make them interchangeable. Other countries would join later to the league.
- The main function was to facilitate the trade among the members, by setting the standards by which gold and silver currency could be exchanged.
- From 1873 onwards, the LMU was (*de facto*) on gold standard.

4.5. The ascend of the Corporations.

CHANDLER, Alfred D. 1977. *The Visible Hand: The Managerial Revolution in American Business*. Harvard University Press.

- The US modern multi-unit business replaced small traditional enterprise.
- Role of the corporations in the modernizations process.
- The managerial change: qualification, technical skills vs. ownership of the firm.



UNIT 4.5. **The Ascend of Corporations.**

- GUINNANE, Timothy; Ron HARRIS, Naomi LAMOREAUX and Jeant-Laurent, ROSENTHAL. 2007. “Putting the Corporation on its place.” *Enterprise and Society*. 8 (3), 687-729.

Table 1 The Menu of Organizational Choices

Type of Form	Definition of Form	Availability?
Ordinary partnership	Two or more partners, all unlimitedly liable	Yes in all four countries
Limited partnership	One or more general partners with unlimited liability, and one or more special partners who cannot participate in management but who have limited liability	France: yes Germany: yes UK: only after 1907 US: yes, but in an unattractive form
Limited partnership with tradable shares	Same as limited partnership, except special partners' shares can be bought and sold on the market	France: yes Germany: yes UK: no US: no
Corporation	All members have limited liability and their shares are tradable	Required special permission until: France: 1867 Germany: 1860s–1870, varied by state UK: 1844 without limited liability and 1855–56 with limited liability US: mostly middle third of nineteenth century, varied by state
Private limited liability company	All members have limited liability but their shares are not tradable	France: 1925 Germany: 1892 UK: 1907 US: 1870s–1880s for a few states, but unattractive; laws in 1950s–1970s allowed close corporations to mimic; 1980s–1990s

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Task 3.

The following article complements the Practice “What is a Firm?”. Please, summarize the main ideas.

- The Economist. 2016. “America´s corporate world alternates between competition and consolidation.” September 17th.[http://www.economist.com/news/special-report/21707051-americas-corporate-world-alternates-between-competition-and-consolidation-what-goes-around].

- **4.6. Conclusions.**
- Which are the key concepts of Unit 6?
- What do you highlight, as the most relevant ideas?

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- **TOOL: The Minute Paper.**
- It is an assessment technique provides rapid feedback on what the students perceived as the main idea in a particular topic.
- Students must first organize their thinking to rank the major points and then decide upon a significant question.

http://provost.tufts.edu/celt/files/MinutePaper.pdf

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