GLOBAL ECONOMIC HISTORY

Economic history can be defined as history of economic activity of human societies.

Why study history? Because it builds a frame of reference to understand the world and helps to be aware of contexts, that are complex and need to be understood, in order to learn the history and why the decisions were made, and not the make the same mistakes.

INTRODUCTION

Factors of economy:

- Population
- Means of production: natural resources, technology, labor, capital
- Distribution
- Consumption

"Economics" = oikonomia in Greek, means "household management (Aristotle). In most culture in Eurasia, trade and banking were seen as despicable and were not a subject itself as a separate science, main concerns were other things, like ethic or religion.

EVOLUTION OF THE SUBJECT

1. Mercantilist philosophers (15/16th centuries), the prosperity of a country depends on the movements of goods
2. Defining the domain of Economics (18th century), economy as an independent thing to study
3. Evolution of the discipline (19th century on), expressions of other subjects were imported and seen in another way in economy

In the late 18th century Adam Smith brought a new vision in the economic knowledge of that time, saying that the selfish thoughts of privates help in increasing the public wealth and economics should be threatened with totally different rules from morality, religion, etc. -> the rules of economics are independent. Personal freedom is the key to wealth and happiness.

HISTORIANS AND ECONOMISTS

Economic history is a discipline of hybrid character and unclear boundaries, mediating between the tradition of humanities and the social sciences with their current tendency to be more "scientific" in method and ambition of formulating general, universal rules of human activity.

It uses both qualitative and quantitative sources (nowadays there's the tendency to prefer quantitative).

Historians deal with long term historical processes of change and do not lead to the creation of universal laws. Economists develop general theories often claiming universality of application.

MOST IMPORTANT ECONOMISTS

- Germans (late 19th-early 20th century), no universal truth in history, emphasis on sources and placing the past in context, inductive method (from particular to general) vs deductive approach (testing a theory)
- Toynbee (1884), coined the concept of Industrial Revolution
- Karl Marx (19th century), the first to say that a change in the economic area is a key to influence culture and society. Different eras and societies are defined by different modes of production
- French School of the Annales (early 20th century), real change in the structure that need long period of time to change (social and economic conditions, mentality). Area studies:

agriculture, trade, banking, business; less importance to traditional political and military history
- Cliometrics (USA 1958), application of economic theory and econometrics to economic history, use of quantitative data

SOURCES

History deal with "experiments" that already happened and happened once. Historical sources are residuals of history's "first experiments" and historian try to document historical process. These sources are different since they've been taken from different parts of the world and so seen in different ways.

These sources are:
- Business inventories and ledgers
- States' economic policy deliberations, that are better preserved and easier to access
- Real-estate surveys and general censuses
- Industrial statistics and other databases, which became more and more important advancing in history

FACTORS that lead to economic growth and create differences between countries
- **Physical factors,** environment, natural resources, geography, climate
- **Technology,** the capacity to create new technologies and to adapt to innovation
- **Institutions,** political system, economic rules, social norms, legal system, religion. This is what creates a society and their possibility to adapt better to change that can be brought, for example, by a big crash like a pandemic.

ECONOMIC CHANGE

Economic growth: relevant increase in total output

Economic development: growth accompanied by a structural economic change

Common ways to assess economic growth and development
- GDP and GDP/Population= Income per capita
- HDI, Human Development Index, based on the idea that money is not everything, in fact it measures standard of living and in addition to wealth includes other important factors such as literacy and life expectancy

Also, the rate of urbanization (the number of people that live without the need of agriculture) is another important way to measure the development of a country.

ECONOMIC SECTORS
1. Primary: fishing, farming and mining
2. Secondary: manufacturing. The level of people that work in this sector tells the development of a society
3. Tertiary: service industry

Path dependence: Tendency of a past or traditional practice or preference to continue even if better alternatives are available.

The five stages of development
1. Traditional society
2. Preparatory stage
3. Take off stage
4. Drive to maturity
5. Stage of mass-consumption

The two tipes of crisis
1. Underproduction crisis, scarcity, pre-industrial societies
2. Overproduction crisis, industrial societies

De-industrialization: because of technology or a change in the economy and society (ex. some jobs are more affordable in other countries, so comes unemployment)

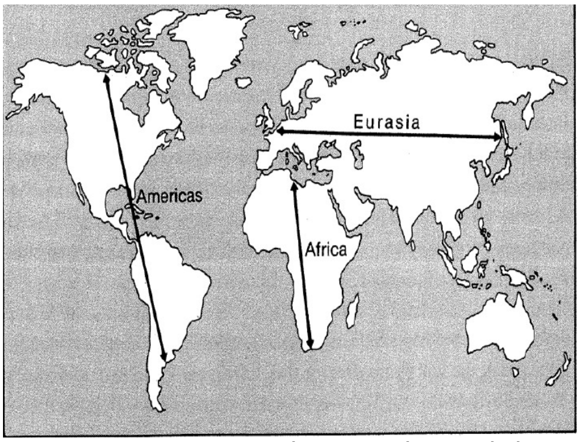
FARMING AND AGRICULTURE

Farming and agriculture are key in economy, because food production was indirectly a prerequisite for the development of new skills and techniques.

Variation stems from the fact that only a few plant species are edible and can be domesticated and therefore used in agriculture. The availability of these species is uneven. Moreover, some species are better than others in generating protein, energy etc. Domesticated animals are also crucial, only some species can be domesticated.

Agriculture and the need to find new sources of food was a crucial factor in the development of societies. By the end of the ancient world about 200 plants and about 50 animal species had been domesticated and about 90% of human population had become sedentary, finding a good place to live and a way to adapt to the various natural changes of the place.

Also, the orientation of the Continents influenced the dissemination of food production techniques and other technologies once they had been created. Oceans were barriers and kept the Americas and Australia more isolated.



people are more likely to move east-west than north-south bcs the weather is similar

Invasions and migrations did not transform agriculture in radical ways, but slowly spread crops, improved rotation and techniques, expanded the acreage under cultivation. Hence the larger availability of domestic plants and animals ultimately favored earlier and greater economic (and cultural) development in Eurasia.

The agricultural surge was remarkable in India and in China, and thanks to that, they were able to support a large urban population and the Chinese economy became more heavily commercialized early on.

The two helpful phenomena in the development of agriculture in Europe:

- the rise of Islam (VII-VIII centuries CE) has been associated to the "Islamic Green Revolution" and new crops (from oranges to eggplants) imported from Asia to North Africa and Spain.
- the expansion of medieval Europe (XI-XIV centuries CE) involved an agricultural revolution (three-field rotation) and a prolonged period of land reclamation.

GLOBAL ECONOMIC HISTORY

Medieval time

A chain of widely spaced cultivated regions, extending from N. Africa to China, were connected by routes of trade. This chain was politically and religiously fragmented and its links exposed to interference and rupture. Traders did their best to overcome these limits. Ca. 1200 China and India were the dominant economic powers in this system, and were connected between themselves, while Middle East and Western Europe had their own. The Americas were connected by trans-regional circuits, but the ocean weakened outside links.

Long distance trade was limited, because were **slow, dangerous** and **expensive**, so only few products could have been traded, because they had to be **expensive, solid** and **durable**. The main commodities were spices (south-east Asia), silk (China, the reason of their supremacy), gold (central-eastern Africa, the reason of the connection with the world) and silver (Europe); the main international routes were overland (until 1500).

Between the 13^{th} and 14^{th} century, some travellers started to document their voyages, bringing new knowledge to Europe and the next generation. Polo brothers were the most famous, and Marco's book, "The travels", is still one of the most influential books ever written, because Europeans started to understand the big wealth and innovations of the Chinese Empire.

The world was divided in three big parts and traders had to deal with the different religions and cultures. In fact:

- The far east was **Buddhist**
- Europe was **Christian**
- The Middle East and North Africa were **Islamic**

THE FAR EASTERN-CIRCUIT

The southern tip of India was a key landfall and a divider in the great sea routes leading east (toward China) and west (toward the Mediterranean). China was the main end terminal of both sea and land routes and a formidable supplier of high-quality goods.

INDIA

The Chola-dynasty, that lasted almost 1000 years and established in the south of India, was one the most important centralized-state of the Far East. In fact, thanks to a vibrant coastal trade, they created an important line of communication with foreign communities (Arab and Chinese). Lots of guilds of travellers and traders were created and the trade was seasonal, based on the monsoon regime. At the base of their economy there was cotton, with fabrics expanded in the whole territory, but also spices and silk were good commodities.

CHINA

Under the Song (960-1249) China was the "best ordered state in the world" and its economy was "the largest in the world both in gross and per capita income" and its technology the most advanced. This development was possible thanks to an important demographic expansion (population nearly doubled) and a 20% of urban population, especially in the coastal south-east cities like Guangzhou, that showed an important level of industrialisation.

Song's China was a "realized capitalistic experiment", in fact their economy was the strongest in the world, thanks to investments in the primary sector, like the discover of irrigation, the river and coastal navigation, the inventions of new technologies and products, such as **paper** and **high-quality iron**, and the international exports of silk and ceramics.

An economy such developed for the time required new business practices and institutions, so they have been the first to create:

- Associations of merchants
- **Bills** for the transfer or exchange of cash
- "Flying cash" system and **paper money**, issued by the State

THE MIDDLE EASTERN CIRCUIT

M.E. was a bridge between the east and the west. There were 3 routes and 3 Mediterranean terminals:

- **Constantinople**, northern route, overland caravan route across Asia
- **Syria/Palestine coast**, middle route from India to Persia, via Baghdad, dominated by Arabs and Persians
- **Alexandria**, southern route from the Indian Ocean through the Red Sea

They were also connected to Africa, where they traded **gold** from the Zambezi valley (east Africa) and **bullion** (west Africa), other than salt and slaves.

From 750 to 1258, M.E. routes were under the control of the Abbasid Caliphate, with capital Baghdad (biggest city of the world at that time). Under the Abbasids happened the so-called "green revolution", where new agricultural products (paper, silk, linen) and technologies were discovered (irrigation and windmill).

The European circuit was made up of three interlinked subsystems:

- Mediterranean route (linking M.E. ports to Mediterranean port cities such as Venice and Genoa)

- Land route through the Alps and Atlantic route (linking Mediterranean ports to the North Sea)
- Baltic route (connecting North Sea to Baltic lands)

Europe was very fragmented and characterized by a high number of conflicts, so trade and economy were not as developed as the Asian. In fact, after the collapse of the Roman Empire, the situation was critical, because the romans left lots of land to be conquered by the foreign empires and this brought instability to the continent, where there was no trace of similar cultural or religious identity. Approaching to 1000, some features start to be the same in every European state, like the presence of the monasteries that brought lots of scientifical and economic knowledge, and a similar cultural identity, based on Christendom, started to come out in the European society. Despite this development, Europe failed to create a single and dominant state. The one and only form of united power was the Carolingian empire in centre-Europe. The most prosperous and urbanized areas of Europe were the most fragmented and were in north Italy (Pianura Padana) and in the Flanders, on the Baltic Sea.

THE RECOVER OF EUROPE

The recover of Europe was possible thanks to the end of the invasions, the discover of new techniques in agriculture and specialization, but most importantly the demographic growth, that doubled the population (from 40 to 80 million).

Feudal system

Feudalism is a political, social and economic system based on loyalty and military service. Estates were "leased" to lords and warriors(knights) in exchange for military service and administrative duties. The society was divided into 3 parts: Dominicum (lord's demesne), Massaricium (peasants' and common land) and serfs, unfree peasants that couldn't be sold from the land.

Innovation in agriculture

Three-course crop rotation, Heavy iron plow, harness and drainage were the most important techniques that were discovered in that period, and productivity increased by 50%. This period of innovation was possible also thanks to the discover of new land in the east, especially in Germany.

This era was characterized by the "commercial revolution", where all sectors of economy grew and the rate of urbanization increased, thanks to many innovations that brought the manufacturing area to increase their level. Alongside this, many institutions were born, in order to increase the many new and bigger areas of the society and the economy (like the banking sector). The merchants were the main character at that time and the most famous were the Italians and the Syrians, that created new trade routes.

TECHNOLOGICAL INNOVATIONS

Lots of new technological innovations came out in this period, especially in the area of manufacturing and warfare. Time started to be measured by mechanical clocks.

People started to understand new way to product **energy,** that were:

- Harnessing of water and wind power
- Vertical and horizontal wheels, cams and hammers
- Canals

THE MILL

Slave and donkey powered mills for grinding cereals. They were mostly used in Asia, but in Europe the phenomenon exploded from the XI century. Mechanical mills were used for:

- Drainage
- Crushing
- Metallurgy
- Fulling of cloth
- Papermaking

The common denominator of these new techniques was that they weren't created in Europe – mostly were invented or discovered in China – but once they were imported in the old continent they spread rapidly and developed faster than in the far East.

Thanks to these innovation, new products came out on the market and the main areas where they belonged were:

- Textiles, that was the first kind of specialization, and developed rapidly in the low countries and especially in Florence, specialized in woolens. Silk came from India, cotton from China
- Metallurgy, with furnace technology imported from the Arab world to create cast iron
- Tanning, with a wide use of leather, from flasks to ladders
- **Paper**, Technique invented in China refined by the Arabs reached Europe via Damascus and mechanized in Italy (1250)

WORK SYSTEM

The work system of trade and manufacturing was very simple across Eurasia, because the countries saw what the others were doing and then tried to copy. The division of labor developed rapidly as the division of society: it came from this period the idea that if you belong to an area of the business, you must stay in that context and not go out from it; this can be applied to society and the division in classes.
From trade's side, guilds started to come out, and were constantly sanctioned by the sovereign states, so cooperations between businesses of the same area started to be born, in order to protect their trades. They were very similar between each other: they had a hierarchy of members, dues and mutual help and controls on the quality and the quantity of the products, alongside costs, income and prices.

THE NEW LEGAL SIDE

In this development of trade brought also new jobs, traders crossed borders every day and so a common legal system was needed. They brought the byzantine legal system and adapted to trade. After the adoption of these legal system, every transaction needed to be overviewed by a lawyer or a notary, so a new class of professionals came out in a very short time. Schools started to adapt themselves to this trend, and **universities** established after the pattern of Muslim seminaries.
The difference between the seminaries and the universities was that the seminaries were about the teaching of the religion (Islam), while the universities were associations of students. These students belonged to a branch of jurisprudence, that started to be interested in economics and business, and were also the first that started to study economic thought and history.
Ius mercatorum (business law): System of customs and practices enforced through specialized merchant courts (a medieval version of international commerce international commercial law)

New business organization were born: **companies**, not limited in time and in liability, and **partnerships**, limited in time and liability (safer), that were contracts to finance business ventures. These contracts regulated the rights and duties of the parties that wanted to make a company; on the maturity profit was shared according to the agreement, in case of loss the financier loses capital, and the other partner loses reputation. Lots of investors could group together to low the risk, profits came out as a dividend.

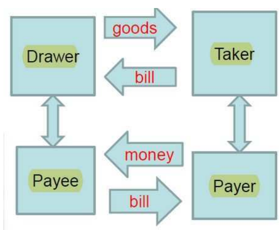
Accountancy took on the tasks of recording everything that was happening financially. Merchants had previously dealt personally with customers, but now a whole new network of transactions needed to be recorded. So, the **double-entry bookkeeping,** a document where every transaction of the business was recorded, was invented:

- Put rational bases for economic decision making
- Separated business from its individual owners
- Gave transparency to business
- Probably originated in India

CREDIT AND BANKING

Credit is vital to economic system as water is to ecosystems. In Europe at that time there were common needs, like safe deposits, currency exchange, money transfer, advances and loans, and weak state control and regulation, the chronic shortage of hard currency and the multiplicity of mints were a problem that needed to be solved. In the early developments (12^{th}-14^{th} centuries) banks were private, an evolution of moneychangers that started to accept deposits in their strong boxes, recording every transaction and giving advances. These were still a family activity, that developed in international companies, that were stronger and more likely to face the problem of usury.

The **bill of exchange** is the evolution of long-distance techniques developed in the Middle and Far East, that were based on personal relationships. In Europe from 13th century, a new more impersonal model took place with emergence of Fairs, the rise of “merchant- bankers” and the “bills of exchange”. Bill of exchange freed merchants from the tyranny of “cash” and allowed traders to pass credit notes and it was simply an informal letter by which one merchant ordered his agent-banker in some other city to make a payment on his behalf to another merchant in that distant city; it required four parties in two cities.



INVENTING SOVEREIGN DEBT

At that time, the political fragmentation created two big problems: little revenues (also because of the little properties, that needed quick revenues to survive) and constantly war demands. To face this problem news way to finance government was found:

- **Forced loans** to the government by the citizens with the common consent among citizens that they would’ve been repaid with a little compensation in the future

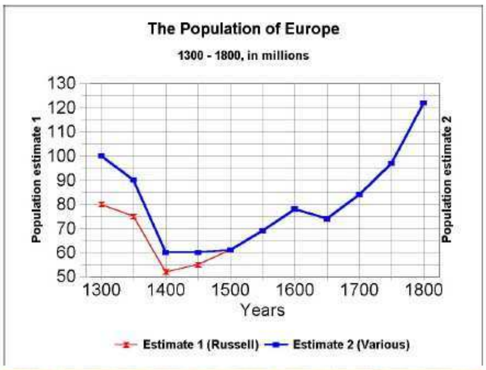
- **Short-term debt**, to face the quick need of money
- **Consolidated debt**, where the government couldn't pay back the debt, so it was allowed to pay back the interests (but not the whole lend), and privates were allowed to trade bonds

THE CALAMITOUS 14TH CENTURY

The 14th century was outlined by two main calamitous events: the **destruction** caused by the invasions in Asia, the most important was made by the Mongols, and the most important and well-known, the **black death**. The plague originated in Asia and spread worldwide devastating populations and their economies. Long-distance trade fell off dramatically, and at the restart of them, the European took control of this area.

The fall of the east was at first caused by the Mongols, which affected China, India and their economy, and then the Black death devastated what was left by the invasions; 50% of the population was killed, and it moved faster across Asia, and later a Genoese ship brought the plague to Europe in October 1347, and the result was the same as in the East. In Italy, Florence was one of the most affected city, where 2/3 of the population died, but at the same time from there came the most of the information we have about that time, because everyone started to write about it.

Reactions to the XIV century crisis in Asia (China, India, Ottoman Empire)



The Estimated Populations of Later Medieval and Early Modern Europe

THE RECOVERY (15TH CENTURY)

Europe was the fastest to recover, both in demographics and in economy, where Central and Eastern Europe specialized in primary exports. But the most important thing that changed after the plague was the political situation, that affected positively the economy; from feudal status England, France and Spain started their **national monarchies**. This was very important because a centralized state could provide Bureaucracy, professional army, centralized tax-systems and this helped in the development of the European economy, that took the lead in the world. The problem was created by the missing of the trade with the East, because of the disruption of traditional routes and the Ottoman blockade in Eastern Mediterranean, the traditional gate to Asia.

NEW BALANCE OF POWER IN EURASIA (AFTER THE 15TH CENTURY)

In China, the dynasty of the Ming restored the traditions and the imperial power after a century of foreign dominance. Chinese managed to recover demographically and economically. The main features of the Ming's empire were:

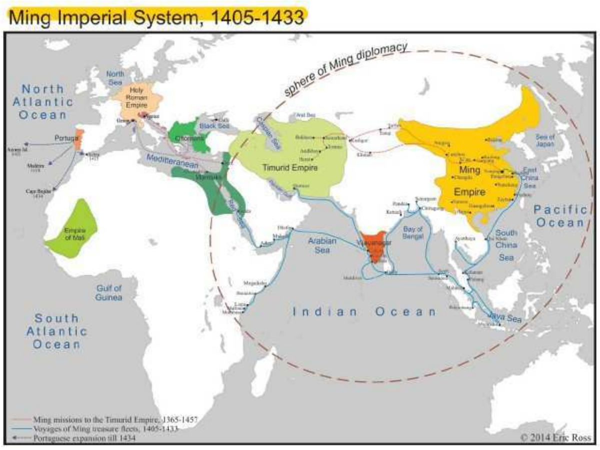
- A **centralized control economy**, in difference with the Song which left the economic initiative free; for example, contact with foreigners was a state affair, private overseas trade was banned

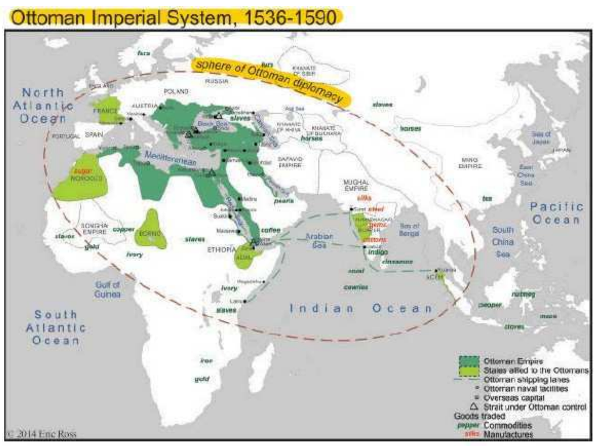
- **New network of trade** and foreign relations, where they were the main character in the Asian geopolitics and wanted tribute missions, because trading with them was a privilege and came at a cost
- Chinese took control of trade in south-east Asia and led naval expedition in the Indian ocean, like the seven diplomatic voyages conducted by admiral Zheng, with 300 ships and 30000 men
- After 1433 they started an **isolationism** that lasted 500 years

Meanwhile, India was characterized by political fragmentation and foreign domination, but they kept an high profile in the trade, where they exported cotton cloth, the most important manufacturing good produced in the country.

In the Middle East, the Ottomans took the power and conducted many wars against the Balcans with many successes. Their system of government was well-organized:

- Strong central government
- Effective tax-system
- Supervision of the State in commerce
- Control of trade routes and made them safe, since they were the bridge between Asia and Europe
- Foreign transaction under government control (spices, gold, etc.)





THE IMPORTANCE OF GEOGRAPHY

In this period of the history, full of discovery of land and creation of new trade routes, **geography** was crucial, in order to know the world and help to find new opportunities to trade. The most famous was the one designed by Carlo Martello in 1489.

GLOBAL ECONOMIC HISTORY

Mercantile period

FROM EXPLORATION TO MERCANTILE EMPIRES

During the 15th century, the world and his economies changed dramatically. After the pain of the black death, Europeans took early the control in trading. They had the desire to discover new routes and opportunities, but in difference to the previous period, they had also the means. In fact, new technologies and weaponry could be used, and the change in the political situation, with the states that became "mercantile states", so keener to use money for voyages. This change in the mentality and in the possibilities, contributed to create new outcomes, like:

- The oceans became connectors and no more barriers
- There was a diffusion of ideas, cultures and goods that reshaped the world
- The balance of power moved north-westward, with the Atlantic states of Europe that took the lead in the new economy
- New colonisations that brought new commodities and so also the economies changed

The most important new commodities were:

- Colonial commodities (**sugar, tobacco, coffee, tea**) from America and Asia
- **Bullion**, from America
- **Labour**, in the form of slaves, from Africa
- **Luxury goods**, from Asia
- **Raw materials**, from eastern Europe

People started to understand that knowledge was a synonymous of power, so new geography studies were conducted and the Atlantic ocean and land beyond were charted; thanks to these studies, lots of famous discovering voyages were made, like trip around the Cape of Good Hope in 1488 by Dias, the first voyage of Colombo to the new world (1492), the reach of India and North America (1497/98) and the circumnavigation of the globe by Magellan (1519-1522).

European started to claim the power on the world stage, and so the new land discovered (indies) was considered as "terra nullius", that could be claimed by the first that discovered them.

THE NEW MEANS IN EUROPE

As said before, the new means that could be used in Europe were the main reason why a want of discover new land was born. These new means were:

- **Planning**: new state schools were created to improve seamanship and acquire nautical expertise; voyages were financed by the king to find new routes for trading with Asia directly and with Africa (especially from the king of Portugal)
- **Mastering the sea**: new technologies were invented to help the sailors, like the magnetic compass for direction (latitude, north-south) and astrolabe for position (longitude, east-west)
- **Ship construction**: a new caravel was invented; it has a new design, it was sturdy, fast, armed with cannons, manoeuvrable and economical, because of the small crew required, so more goods to be traded could be brought
- **Weapons to conquer**: gunpowder, a mixture of chemicals that exploded when lit, a wide spread of firearms and cannons, that were more sized to a ship and easily manoeuvrable

EUROPE'S NEW MERCANTILIST STATES

The political situation changed dramatically during the 15th century, in fact lots of former feudal states united and formed national monarchies, that created most of the borders of today. These new states all had common characteristics:

- **Bureaucratization**
- **Fiscal sovereignty**, that was needed to finance the new **permanent armed forces**
- **States' economy and balance of trade**, where they started to seek **bullion** as the only way to measure the power with other states (the one with more cash (bullion) was the most powerful, economic thought of the time). The one who didn't have much cash needed **exports** as key to reach wealth and power

Portugal was the first to set the road to anew way to conduct economic life based on the trade. So the king started to finance expeditions to explore the Atlantic and the African coast (1415-1488) and over 50 fortified position were set upon the African coast. In 1488 Dias rounded the Cape of Good Hope and opened the way to the Indian ocean. Vasco da Gama followed him and set an expedition and reached India after 24000 miles round trip; 4 ships and 170 men left Portugal, but just 2 ships and 54 returned. The reason of taking the risk of doing these kinds of expeditions is that the cargo of spices Da Gama carried back was worth 60 times the cost of the voyage. Spain followed suit, and financed the Columbus' gamble, that wanted to reach east by sailing west; after he arrived in the New World, further expeditions followed funded by the Spanish king, who later gave explorers the right to claim land and establish settlements.

CREATING MERCANTILE EMPIRES

Before 15th century most of the trade movements were overland, while after the movements were mainly overseas, and so the power of the empires was in trading, since motherland was way distant from the colonies. Two colonial models were used to create European empires:

- **Mainly sea-borne empires**, like Portugal and Holland, where little countries with little populations controlled many areas overseas
- **Mainly territorial empires**, like Spain and England, where big countries controlled big areas of the colonized land, and used them to create jobs for their population

When Europeans arrived in the new land, they were outnumbered by the local population, so they need to have more technologies to fill the gap. These technologies needed to be paid so explorers had to find funds. European countries started to act in two different approaches:

- **State funding, state organized trade and state-run enterprises**, like Portugal and Spain, where private business could be associated with state convoys and business ventures
- **Private companies licensed by the State** (special rights and privileges to compensate for investment and risk), like England and Holland, and turned out to be the most successful

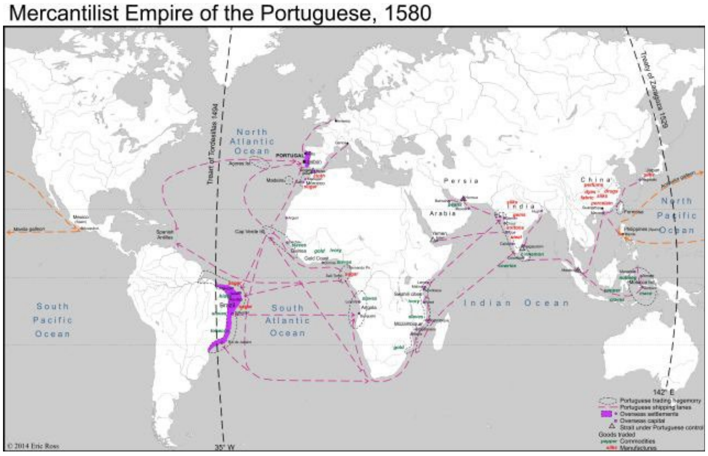
The leading countries of the 15th were Portugal and Spain, replaced for the 16th and 17th by England and Holland. Russia was a special case, in fact they moved overland and crossed Siberia, reaching the Pacific.

THE PORTUGUES SEA-BORNE EMPIRE

The Portuguese were the first to create an empire of colonies by creating a system of fortified ports to protect sea lanes and extract tributes (in Ormuz, Goa, Malacca). The local powers tried to react, but in the naval battle of Diu they were disrupted by the advanced technology of the

Portuguese navy, which with only few vessels could face lots of normal ships. To administrate the trading power that was created, the Portuguese created a society, called Casa de India, where they could handle the many departments of trading. Then their empire expanded in Africa, where they could get sales and gold, then reached China and Japan, where they created the first trading spot in Nagasaki.

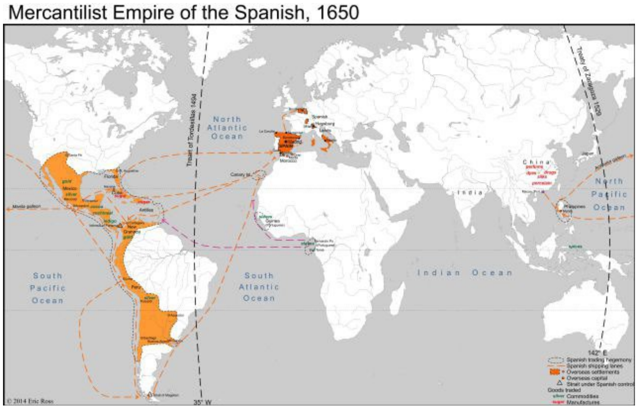
Mercantilist Empire of the Portuguese, 1580



THE SPANISH COLONIAL EMPIRE

All colonial territories in the new world belonged to the Spanish Crown, and they were located mostly in centre-south America and in the Philippines. The state controlled had the trade monopoly, and the fleet of merchant ships were always escorted by war ships. The centre of the trading life with the colonies was Sevilla, where there was the House of Trade Contracts, that issued licenses to anyone who wished to trade with colonies in the new world. Ships carrying goods to the colonies departed from Seville and had to complete their journey at Seville. The main settlements in Spanish colonies were about farming and mining (almost any minerary good came from America and was mined by Spaniards. They created the Council of Indies in 1524, to establish rules of the colonies and the relation with motherland.

Mercantilist Empire of the Spanish, 1650



AMERICA BEFORE THE ARRIVAL OF COLUMBUS

Before the arrival of the Europeans, the overall American population was over 50 million; On the northern-east coast there were advanced agricultural societies, that cultivated corn, squash and beans and had an advanced political system. In central and south America there were powerful empires, advanced in agriculture and organization, like:

- The Aztecs, which had formed a powerful state in today's south of Mexico, with a population of ca. 10 million people and advanced irrigation system and high yield crop of corn; the capital city was bigger than Paris. Declined after the arrival of Cortes (1519-21)
- The Maya, an advanced society based in in south-Mexico, Guatemala and Honduras, with an agriculture adapted to subtropical climate and a network of trade; at the arrival of Spanish, it was already in a serious decline
- The Inca, the largest and most advanced society in south America, with an empire that ran along the Andes, from Peru to south-Chile and a population of 15-20 million people: large army, well organized administration, advanced agricultural system, and a big system of roads. Collapsed because of the arrival of Pizarro (1532-33)

THE EUROPEAN COLONIZATION

ASIA: differently from the colonization in the west, the European colonization in Asia was much slower, but happened anyway, because Europeans were too few to have significant impact early on in the Indian Ocean and the Far East, so the local people started to underestimate the danger, and let the few Europeans trade and do their economic activity: little by little the colonizers started to have more knowledge about the Asian land and at first they took the lead in sea routes and global commercial strategy, then it became also a political and military activity that ended with the colonization itself.

AMERICA: the whole colonization happened quickly and in big numbers. This brought dramatic consequences, in fact Europeans early started to make plundering and killed the native people, creating a big demographic problem (80% of the Americans died in two generations). This catastrophe was caused by the brutal force used by the European both in war and in forced labour and because the native population had no immunity against many contagious diseases of the "old world". Colonizers tried to solve creating big migrations flows, both voluntary from Europe and forced from Africa in the form of slaves. Only 550.000 Spaniards settled in the Americas, and only 6% were female, so also a reproductive problem was advancing.

THE COLONIAL ECONOMIC SYSTEM

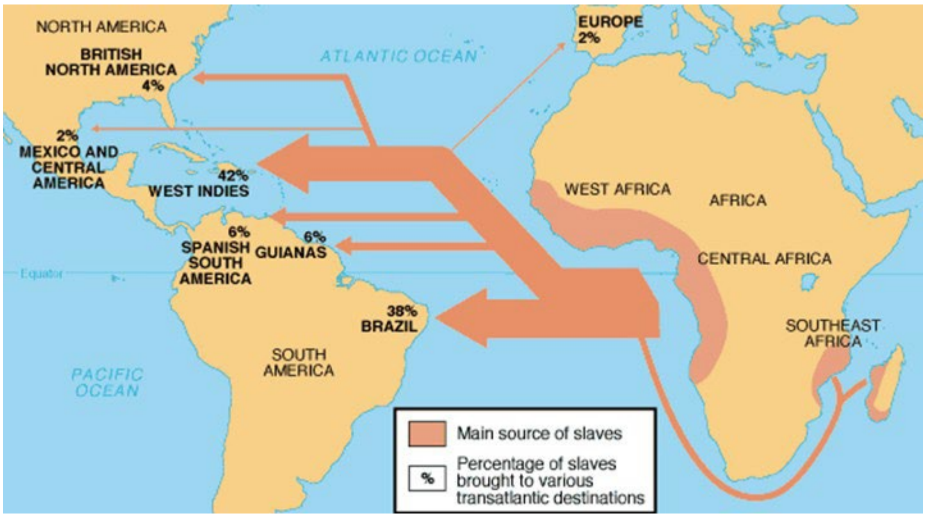
Colonial economy: Plantation were monocrops, the product planted was used just to trade with motherland, like the sugar in Jamaica.

The "encomienda" economic system: large estates (encomienda) in the New World were assigned to Spanish conquerors to allow proper cultivation of land and keeping order. An encomienda consisted of a grant by the crown to Spanish settlers; the receiver of the grant could exact tribute from the Indians in gold, in kind, or in labour and was required to protect them and instruct them in the Christian faith. The system forced the Indian population into submission, but soon it generated all sort of abuses, from mistreatment to torture to enslavement. A colonizer, Bartolomé de Las Casas, reported that this system was disrupting. The consequences were that new laws were approved, that prohibited the enslavement of indigenous people and modified the system of land grants. Settlers were too few and lacked a cheap and docile workforce; this problem led to the import of slaves from Africa.

THE ATLANTIC SLAVE TRADE

Systems of servitude and slavery were known and practiced in Africa well before the arrival of the Portuguese, in many different forms within (debt bondage, military service, war captives…) and without(trade). In Africa were targeted non-Islamic tribes, as well as in Europe and in the New World (Christian communities) Islamic were persecuted.

The Atlantic slave trade became rapidly the most important and turned slaves in the main African “export”. The trade was at first dominated by Portuguese traders, who controlled the main West African ports, but than all the colonial powers used it. It started in the 16th century and rapidly became a mass deportation that lasted until the 19th century, carrying more than 10 million people to the New World across the Atlantic. The trade was banned in 1807 by the Slave Trade Act, but in real life slavery did not end in Africa and in the Americas, and still today there are signs of it.



THE TRIANGULAR TRADE

The economy of the New World thrived on African slave labour, that contributed to the export of many commodities, like:

- **Sugar**, from Brazil and the Caribbean islands
- **Mining products**, from New Spain and New Castile
- **Tobacco**, from the Caribbean islands and North America
- **Cotton**, from North America

These products were exported to Europe, which exported manufacturing goods to Africa, like **textiles, iron** and **firearms**, and created a triangle of trading with the New World. This trade had some impact in Africa like the demographic dislocation and population losses and a vicious circle of internal wars, caused by political fragmentation and West African kingdoms thrived on the trade of humans, that wanted the monopoly of the “slave economy”.

THE AMERICAN MOUNTAIN OF SILVER

Spaniard found in Mexico and in Bolivia huge silver mines and became the larger supplier of silver in the world. The minted American silver was distributed around the globe: loads of silver reached the Atlantic coast and were shipped to Europe from Veracruz and from Panama, while other loads reached the Pacific coast in convoys from Acapulco. With this silver, new Spanish dollars were coined, the ancestor of the American dollar.

Without the American silver the Europeans would've been in trouble financing their trade; the flow of silver in Europe was unstoppable and so this abundance of money created a problem in the prices of goods, because too much money causes the rise of the price, with the same amount of money (quantitative theory of money). Afterwards, the inflow of silver continued unabated, but the productivity and the amount of goods imported improved, so the price stabilised themselves at first and then even fell.

MERCANTILISM

The mercantile system was a form of economic nationalism, designed to build a wealthy and powerful state. The system oriented the economic policy of European states from the XVI to the XVIII century and fuelled competition, in fact military conflicts were frequent and taxes and tariffs were used to protect local production, while exports were encouraged.

The mercantilist economic thought was based on three pillars:

- **Gold and silver are the basis of wealth and power**, in fact a country's economic wealth and power was measured by the amount of bullion in its treasury
- **Trade and manufacturing could supply bullion**, in fact even the poorest country could supply bullion by trading, so it follows that exporting was way more important than exporting, so big tariffs were put on foreigners' manufacturers goods to encourage domestic production
- **A zero-sum game**, that means that when a country gains a level of importance, another loses the same amount, and this creates politic and military conflicts

A sort of colonial competition was born, since the colonies were supposed to enrich the mother country, so sources of goods were put at lower prices (like gold and silver) only for mother country's market and new exclusive markets were created, restricting the possibility of trading with other countries.

Different approaches were used by the colonial powers:

- **Holland** tried to master the sea and to make free every trade
- **France** used Colbert's theory, which implied protective tariffs on import and state support on luxury manufacturing, creating a collision with free-market strategy of Holland
- **England** published his Navigation Acts, which stated that goods to and from England had to be carried only by British ships

SPANISH SUPREMACY AND COMPETITORS' REACTION

Those mentioned before were the big forces in the world at that time, but the most important of all was **Spain**, which had a strong and solid empire in the two worlds, controlled most of the trade in the Atlantic, and had the biggest reserves of bullion, since they discovered mines of silver and gold in the New World. This supremacy made nervous the other empires in Europe, which started a campaign against the Spanish:

- Alternative trade routes were searched, but in North America, English and French did not have much luck, since they found just few people and few materials to be exported
- War started to be waged at all fronts, in fact France was constantly in war with Spain in Europe, England started to sink Spanish' colonial ships (like the Armada), and Holland, that was at first under the dominance of Spain, revolted and made war with them, gaining independence; this revolt was made mostly because of high taxation by the Spanish crown and because of the religious problem (Spanish Catholics vs Dutch Protestants)

There was also the phenomenon of "**privateering**", that means that central states started to finance private companies or individuals to make warfare or sink Spanish' colonial ships. The Spanish system of carrying bullion to motherland was disrupted and smuggling was encouraged.

To face better the Spanish colonial system, **England** started to encourage his population to migrate to the empty land in North America, that were just discovered. The trips to the New World were licensed by the state but were privately financed, with the privilege of self-government once arrived in the new lands; but people were not keen to leave their home, so the royal government created some incentives for everyone:

- Richest people were persuaded by the granting of sharing profits, that would've been made in the companies of the New World
- The middle-class was persuaded by the possibility of holding a landing freely, and taking its profits
- The poorest class, the most willing ones but without money, could go there signing a contract that stated that they would've had a free passage to the New World becoming servants of some landholders or companies, until the debt that they were creating was paid

Thanks to this method a flow of migration from Europe of 1 million people was created. The migrants, then, started to find new methods to earn money, and other many regulated and joint-stock companies were created, underwritten by groups of private investors, for the purpose of trade and exploration. These companies had the grant of the state, trade monopoly and many privileges.

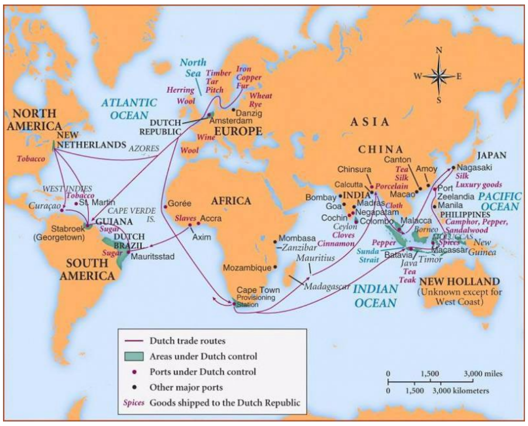
THE PRIVATE COMPANIES

VEREEINGDE OOSTINDISCHE COMPAGNIE (VOC), HOLLAND

This company started as a merger of six previous companies, and then turned out to be the cover business of Dutch monopoly in the Indian Ocean. It was a joint stock company, that empowered to build forts, to maintain armies and to conclude treaties with Asian rulers, but the ultimate goal was to reach the "spice islands" and take the control of the market there. The structure of the company was:

- Shareholders: 1143, only Dutch resident could join
- Limited liability
- Unlimited operations
- Capital stock of 6.45 million florins
- **Dividend of 18% a year on average** that showed why so many people wanted to join the company
- Secondary market for shares, which paved the way to the future stock market

Their fleet was made of about 190 ships, 36.000 people staff (a total of one million youngsters were recruited, half of them returned) and almost 17000 military personnel (1/3 of the total expenses of VOC were for military). These numbers show how big the company was, with almost 170 sailings.



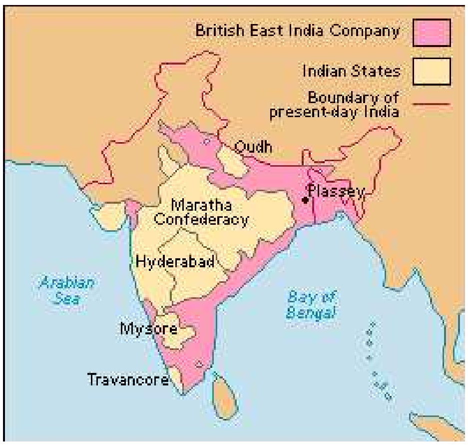
From Persia to Japan, multilateral trade: spices, textiles, precious metals, porcelain

EAST INDIA COMPANY (EIC), ENGLAND

This was the English response to the Dutch, an unlimited joint stock company of 200 investors:

- Limited liability
- Established the English trade monopoly in Asia and the Pacific
- £72.000 capital stock
- Headquarters in London; a corporate governance of 24 directors, with 1 governor
- Factory system: decentralized firm, with a high-level of employees' autonomy. Company operations overseas were run by agents, who negotiated with local merchants sale and purchases of cargoes

It was a hybrid "sovereign" company, in fact it had many privileges, like its **own** flag, coinage, armed troops and law courts. The company planned to enter the lucrative spice trade but was repelled by the VOC in 1623. It turned to India, where it started to build its trading posts with the approval of the Mughal emperor. The main commodities traded by EIC were **cotton** (trademark of India from medieval time)**, silk, indigo** and **tea**.



The EIC overcame the VOC in number of ships and trips only in the XVIII century, and created many trading spots in India, like Calcutta. As the Mughal empire started to break up, the EIC got involved in politics to protect its trade privileges, and it soon became a key player in Indian conflicts. At the end of the XVIII century the EIC had an army of 200,000 men (mostly made up of local people).

COLONIAL COMMODITIES

Time passing by the consumption of colonial commodities got bigger and bigger, with the prices that started to fall. These colonial products were: **Pepper** and **spices**, **sugar**, **coffee**, **tobacco**, **tea** and **cotton cloth**; these last goods came from India and became indispensable in English society. This was the first sign of **globalization**. These first sign of globalization brought also problems, like the deforestation in Brazil and North America, because of logging and fur trade, that were emphasized by the exchange of domesticated plants and animals. European discovery accelerated the process of diffusion of many commodities, like:

- <u>Corn and potatoes</u>, brought to Eurasia and changed its cultural patterns
- North and South America became strong producers of <u>European wheat</u>
- <u>Extensive breeding of</u> <u>cattle</u>, horses and sheep became standard in the Americas
- <u>Tobacco</u> (from America) became a major crop in Europe and China

THE “LITTLE DIVERGENCE”

Unlike the “big divergence”, where the economic balance moved westward from the Far East to the Mediterranean later on during the history, the early little one saw the movement of this balance up-north, with the Baltic and Atlantic states that took the lead in the world’s economy. In fact, the Atlantic powers created a network of trade that almost cancelled the “old” one in the Mediterranean Sea, so they managed to integrate it also in the new network, in fact:

- <u>Dutch</u> and <u>English</u> traders entered in the Mediterranean after 1590, taking the place of leaders that once was in the hands of Italians
- Dutch took initiative and closed some agreements with the Ottoman empire, which granted like the <u>security of people and properties, extra-territoriality, and no collective responsibility</u>
- **<u>Shifting flow of goods</u>**, that means that before raw and unfinished goods were shipped from north to south, and the finished ones on the contrary way; now the raw and unfinished ones came from the south and the finished goods came from north

The 3 key innovations brought by the mercantile system were:

1. **<u>Trade</u>**: creation of <u>joint-stock</u> <u>companies</u>, mobilizing private capital and enterprise, designed to trade overseas
2. **<u>Credit</u>**: development of public banks with <u>clearing houses</u>, larger and stronger than the private banks, the <u>financing</u> <u>of</u> <u>state</u> and <u>debt-management</u>, issuance of <u>paper</u> <u>notes</u>
3. **<u>Finance</u>**: development of <u>stock</u> <u>exchange</u> for commodities and shares

<u>THE CREDIT REVOLUTION</u>

Public banks were a symbiosis of public and private credit and proved to be a crucial innovation. Traditional banks were private banks, run by families, but they were too small, and in this period, they came into bankrupt, so if many banks go into that the whole economy falls, so more big and stabile banks are needed. These new public banks had public backing and were **safer** than traditional private banks. They provided **general banking services**, **managed public money**, and can be considered precursors to modern central banks. Public banks were privately-run chartered institutions. They offered a wide range of **credit services**: <u>safe-deposits</u>, <u>money exchange</u>, settlement of payments, bill of exchange discount, clearing (offset of debits and credits), issuance of bank certificates and notes. At first bank notes were just symbolic money (receipts for gold and silver deposits within the bank), but soon notes were issued not just against deposits of gold and silver but also against the borrowing of gold and silver by public bodies. China reversed the mode of Europe (England in particular), because they did this move before Europe, but they finished to overprinting paper currency, and made it unstable, fueling the inflation and getting Chinese economy in a hard recession. Ming emperor decided to invert this trend and decided to turn back to hard cash, boosting the American silver production.

THE ENGLISH MODEL

With an act of Parliament and Royal charter, England government created the Bank of England, following the scheme of William Paterson. They could work immediately thanks to a public investment trust of £1.2 billion signed by 1268 subscribers. The bank had the right to issue paper notes, with the promise to pay the bearer on demand, and to convince people in using them, the bank let people use these notes to pay taxes. They created credit by circulating paper, in fact these receipt notes to depositors and to the State contributed to creating reserves. The government became early the main client of the public bank with his activities, like the **lending** and **making payments to treasury** and the **management of State debt**, and these became the most lucrative activities of the bank; secondary were the general banking services (holding deposits and discounting bills of exchange). With the Bank Restriction Act of 1797, the English state decided to force paper currency, that made everyone nervous, since from one day to the other the notes of exchange couldn't be changed in hard currency; they did this move because the State was involved in continuous wars that needed to be financed. Then, in 1844 with the Bank Charter Act, the central bank took the monopoly on issuing notes in England and Wales and became a **banker to the banks**, that means that if there was problem with a private bank that was going in bankrupt, the central bank would have taken the lead of the problem and solve it; this characteristic was crucial to make the system stable and so every other state tried to copy it.

THE RISE OF THE SOVEREIGN DEBT

Sovereign debt means that the state has a debt with other parts of the economy; the state finance himself through bonds that must be repaid on a certain date. At first, this kind of financing was used by the Spanish crown, that received short-term loans (advances) from Genoese bankers to finance their expeditions overseas; they would've repaid the Italians with an important part of the loads of materials that they mined in the New World. Then, the need of financing expeditions and wars was becoming bigger and bigger, so long-term loans started to be released, like:

- **Life annuities**, that were a sort of bet against the life of the lender, because after the lend of the entire amount of money, the State would've given back a little fixed part every year of your life, so if you lived longer, then you would've had a profit; similar to a perpetual bond
- **Perpetual redeemable bonds,** that were perpetual bonds that could be redeemed and in a second moment, when it was convenient, re-issued
- Creation of a **secondary asset market,** like the stock market of today, where you could trade bonds

Then, also the usury laws were abolished, and the debt was funded also by the taxation of mortgaging receipts. Some countries used too much this form of debt, so created a very high one, facing the problem of the sustainability of that debt and the credibility of their institution had losses.

ENGLISH FINANCIAL REVOLUTION

England had a high debt, but the debt was going on at the same speed of the economy so the economy itself could sustain the problem and move on. At the end of the 17th century, English institutions decided to unify all the issues of the state and created a national debt, that was mostly made of consolidated annuities at 3%. They created the most important and sustainable credit system, with some main features:

- **Reliability and low cost**, with interest rates down from 8.5% to 3.5% and an extremely unlikely default, thanks to the support of the bank of England
- **Negotiability**
- **Equality of lenders**
- **Valuable collateral** (garanzia) for commercial credit, that were veery reliable assets used also for payments
- **Adequate tax base**, which was needed to compensate the amount of money that had to be paid for the growth of the debt

THE STOCK EXCHANGE

The Bourse, stock exchange, is an organized securities market (physical place), where brokers could convene daily at agreed times to conduct securities trading. The pattern of the old ones was similar to the today's ones, with a big "floor", a large hall where brokers gathered and traded, and a big board where all the transactions were reported. At first the most important one was the Burse of London, passed in the 20th century by the Burse of New York. These new financial markets were the big bang of capitalism; in fact, there you could trade every securities you wanted:

- Commodities
- Shares of companies
- State bonds
- Call and Put options, options to buy or sell at a given time
- Futures contracts, a contract that stated a fixed price purchase at some agreed time in the future

From the early stages, the "burse" showed to be a very confusing innovation, since it linked the financial part of the life to the human part of the traders, based on the perceptions and feelings o the moment. Speculative bubbles were born, as well as specialized papers that started to write only about the trading and the action in the stock exchange. Time passing by many crises showed up, so rules and regulations were created to save future situations from the mistakes of the past. Brokers started to be licensed to make their job (1697), a daily official list of movement started to be published (1699) and later also an annual register started to be made available.

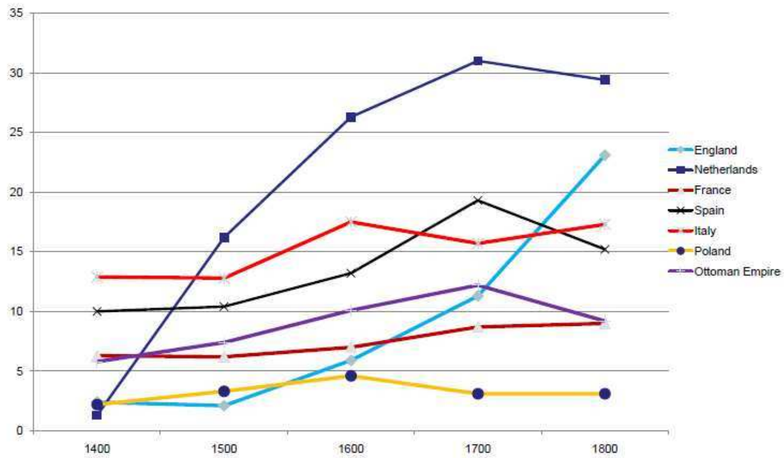
CULTURAL AND SCIENTIFIC INFLUENCE

During the history, many studies on the influence of culture and religion in economy were made; the result were that the economic rise of some States and cultures, were possible also because of their cultural and religion appeal. For example, the protestant tendency to work ethic and to rational pursuit of gain, guided their society to grow and develop faster than the other, like for example the Islamic, more reluctant to change and more restricted to his history. Also, the scientific revolution had an impact on the life of people: the new way of thinking, from a rational point of view, challenged the religion of that time (mostly Catholic); new ideas were born, and they couldn't be stopped since the political fragmentation made possible a big variety of societies in where you could fit and not be prosecuted. The invention of **printing** was crucial in the spreading of new ideas.

The demography of the mercantile period shows how the big changes of that time affected the life, so you see that in the most advanced areas of Eurasia there's a big and constant growth in demography and in urbanization, while in other areas the effect of the mercantile system were negative, for example in Africa, where the population didn't change much because of the ferrying in the New World of slaves, and also in America, where the disruption of native American societies emptied that land.

	1500	1600	1650	1700	1750
Europe	69-84	83-107	90-100	106-115	130-143
China	100-125	140-150	150	150-205	200-270
Japan	16	18-20	22-23	26-27	26-32
India	54-79	68-100	80-150	150-170	190
Africa	82-85	90-95	90-100	90-100	90-106
America	41	15	9-13	10-13	11-18
World	427-446	486-498	516-518	617-641	731-791

Urbanization rates in European countries, 1400-1800



This graph shows very well which countries became more economically healthy and which ones who didn't.

GLOBAL ECONOMIC HISTORY

Second partial, part 1

NEW COMMUNICATIONS NETWORKS

In this century, two networks became the most developed in the new industrial world, the **transportation** and the **tele-communication**.

TRANSPORTATION

The transportation sector shaped in two main areas:

- Steamships and maritime networks. A big development happened in the canal construction, where the new steamships could navigate; the two most famous built in this century are the Erie canal in the US and, the Suez Canal, that connected the Red sea with the Mediterranean, changing dramatically the world trade, since the time needed to pass Africa and reach Asia were cut importantly.
  The most important development in this sector was the creation of the steamboats that could cross the Atlantic thanks to the adoption of screw propulsion and iron hull, and so more people and goods could be carried from one side to the other of the Atlantic in a cheaper and faster way.
- The spread of railways and railroads. Enthusiasm for railroad construction rapidly spread beyond Britain and western Europe with a major market opening for British and European supplies and capital. The railroad construction required:
  1. **Long-term financing**
  2. **Engineering skills**
  3. **Large labour force and managerial experts**
  4. **Adequate industrial supply**

  Railroad networks lowered transportation costs and produced techno-economic conglomerates and national and international market integration, but it wasn't convenient for everyone. If a country already had all these features, or most of them, the construction of a railroad would have brought a benefit, while if a country didn't have these features, it needed to import them, so it would've been a big cost. An example of this type of problem was the case of **Japan**, where they started to build railroad networks in 1870, importing all the previous four features; after the start, where foreigners did everything in every field of the construction, the Japanese government asked those experts to teach the Japanese workforce their profession, so in little time the Japanese didn't need imports anymore. In the **Ottoman empire**, the modernization process was running fast, but they had the same problem as Japan, but, differently, they let the foreigners make everything without teaching the local population, so the construction of railroad showed to be just a problem for the ottomans and a big deal for the British, French and mostly German enterprises that worked there, creating a link that lasted until this day (railroad imperialism). In **Russia**, therefore, the construction of the Trans-Siberian railway was very important in the development of the country, since the west and the far-east end were directly connected. Instead, in **Africa**, railroad networks were developed by colonial powers to dispatch troops, connect mines tom port cities and connect rich cash-crop areas to port cities.

COMMUNICATIONS

The invention of the **telegraph** totally changed the communication. The world was connected with cables, and now the information could travel at a higher speed and in higher volumes, being at the same time safer, than the old letters. Later, the development in the electromagnetic telegraph led to the construction of a network of submarine communication cables, that granted a regular long-distance transmission of text messages.

XIX CENTURY'S MAIN FLOWS

The XIX century was the period where the world took the shape of today's one, in fact the level of industrialisation grew, many innovations in technology made possible the acceleration of many sectors of the economy, and the world started to be more connected, boosting the phenomenon of globalisation that we have today. Three flows affected mostly the XIX century: **trade, labour** and **capital**.

THE FLOW OF TRADE

Between 1820 and 1914 world trade increased up to 40 times. World trade ceased to be dominated by luxury goods and came to be dominated by primary products. In fact, 2/3 of the world trade involved primary products, like wheat, cotton, meat (coming from cattle) and coal, a fossil fuel. Key to this change in world trade was the possibility of having a faster and cheaper transportation.

The impact of this change was big in many sectors:

- More mass-produced goods, greater availability and lower prices
- Traditional manufacturing destroyed
- Traditional agriculture under siege, since it had to deal with products that came from all over the world that were cheaper and better in quality
- Europe and Asia reversing roles, since Europe started to be an exporter of luxury finished goods while Asia became the exporter of raw materials
- Economic dislocation and mass migration, since technologies changed the work system, and this led to unemployment

THE FLOW OF PEOPLE (LABOUR)

Economic growth and technological advances in some regions mean dislocation in other parts of the globe. Millions of people moved to seek for employment and were helped by the advances in transportation, and this movement created many cultural shocks. The movement have been made cheaper both in the internal transportation and in the international, and now the movement of people was no more a movement of forced labour, but a movement of volunteer labour. The most important routes of migration were:

- Migration from Asia, that was the indentured and called "credit-ticket" migration since people could migrate but creating a credit, that had to be repaid
- Atlantic migration system from Europe, that was favourable for the first waves, since there was a lot of land to cover and to use, and then agencies to recruit labour were made
- Russo-Siberian migration system, that saw a big movement of people from the rural places of Russia to the plains of Siberia

The first European emigration was well received and encouraged, and the states in the new world, granted land to facilitate the movement. Then, when the numbers increased, some restrictions were introduced, and **ethnic discrimination** became common in several countries. The most famous one in the blockade of the Chinese migration to the USA for ca. 80 years.

THE FLOW OF CAPITAL

Countries running in excess of savings became exporters of capital, and its mobility rose until 1914, facing the political risk of bringing the revenues back to the mother country. The most important capital flow occurred from Britain to New World countries and London was the financial centre of the global market, in fact:

- Britain contributed ca. 80% to global foreign investment
- ¾ of investment went to the Americas and Australia
- Other capital exporters were Germany and France, that exported capital respectively to the Ottoman Empire and to Russia, creating some links that lasted until today
- Capital exporters seek for emerging countries that were rich in resources

THE DEVELOPMENT PACKAGE

The countries in the world saw the development of the British model and wanted to emulate it, but it was difficult since they had to deal with many problems and difficulties that characterized the British system, like the level of resources, institutional support (the definition of property rights and responsibilities by law), financial services, state support and the competition that would've born with Britain itself. The early answer to these problems was the development of the so-called development "package", that was the strategy to industrialize and compete with Britain, that had in his most important point the discussion of the **"let do"** mainstream economic thought, that stated that the government should stay out of the market and encourage competition, leaving the market to adjust itself. The main features of this strategy, that were the base of the success of the new industrial states of the period like Germany and the USA, were:

- **State coordination, support and protection**, that consisted in the creation of large national markets without internal barriers, the construction of modern infrastructures and the protection of the little industries that were moving the first steps in the economy through tariffs
- **Credit expansion and specialization**, that consisted in the creation of central banks, needed to stabilize the currency, and the creation of investment banks to provide business with capital

commercial revolutio

- **Promotion of mass education**, since it was known that an educated workforce could be more powerful and productive; the education was conducted in both universal literacy and technical education, the application of science to production.

INNOVATIONS IN BANKING SECTOR OF THE XIX CENTURY

The process of industrialization in Britain required modest injection of capital, so that financial institutions played limited role; As capital needs soared, the British financial system was able both to support international trade and domestic investment thanks to both direct finance, via stock exchange, and indirect finance, via merchant's and country banks. Late industrialization in the XIX century required the mobilization of long-term larger capital stocks, so development of adequate banking services became crucial to industrial development and new forms of investment banks under writing industrial enterprises came out.

European capital and expertise in banking contributed to the development of credit services across the globe. A big expansion of central banks happened, since every country that wanted to expand itself in the economy needed to create a central bank on the English model to be solid financially. **Central banks** acted as government banks, lending money to the government, stabilizing the price (with fixed exchange rates and gold reserves) and the credit system, acting as lender of last resort. In this period, continental states needed to have a competition with the UK, so they created a new type of bank where it was clear that all the savings were put in some investments like the railway or other infrastructures, the **specialized investment banks**, like the French "Credit mobilier". Another kind of bank was created in Germany, the most industrialised state in continental Europe, the joint-stock universal Banks, that were banks that provided a full range of commercial, saving and investment services, that were riskier because investors didn't know where the money would have been put.

EARLY INDUSTRIALIZERS IN CONTINENTAL EUROPE

Seen the big process of industrialization of GB, many European countries tried to follow that path and to create a powerful industrial economy in their States. The first that tried to make this change happen were **Belgium**, **France** and **Germany**. These three countries had some common patterns:

- Proximity to Britain
- Institutional reforms
- Large availability of natural resources, like iron ore and coal
- Swift development of a railway network, key to expand the domestic and international commerce, and to promote the growth of large industrial complexes

The early industrializers had an advantage in time compared with the late ones, but at the same time they provided a benefit to the late industrializers, since they created new technologies and adopted some reforms that then could be used and copied by the others that came later.

BELGIUM

Belgium was the closest model to the English one, since it had traditional cultural and trade links with Gb, a similar resource endowment and manufacturing output, like textiles coal mines and iron works. The changes that made the industrialization possible in Belgium were:

- Innovations in banking
- Industry oriented to export, since the little size of the country, that grew a lot
- Large vertically integrated firms, that were large conglomerates that controlled every step of the line of production

FRANCE

France was the first to start the process of industrialisation, but their growth happened really slow and with many fluctuations. France's patterns at that time were the investments banks (like "credit mobilier"), leading role of railway construction, scarcity of coal and resilience of agricultural sector. The new patterns to industrialise the country were:

- New sources of energy and new technologies, like the hydraulic turbines
- Unusual structures of enterprises, organised in a small scale
- Wide geographical distribution of firms
- Importance of luxury manufacturing

GERMANY

The rise in economy of Germany happened mostly because of a political decision, that was the unification of the many states, that before were fragmented, that created a big and common market, with the **custom union** that broke all the barriers. But also, other features made the change possible and contributed in the development that made Germany the second industrial power after UK in Europe, like:

- Spectacular growth of coal and iron industries after 1850 in Rhine-Ruhr valley
- State coordination (at first mostly from Prussia)
- Big role of the universal banks, that were banks that provided a full range of commercial, saving and investment services; riskier because investors didn't know where the money would've been put
- Large productive units and cartels, with these last ones that limited competition and fixed the prices
- Big developments in new industrial sectors, like the chemicals industry, where Germany acquired a near monopoly, and more generally the German share of world manufacturing increased from 3,5% to 13,2% in the XIX century

All these features helped Germany to gain importance on a world scale, since on the political scale they couldn't face the other powers in Europe.

ECONOMIC TROUBLES OF NON-WESTERN SOCIETIES

During the 19thcentury the industrial core expanded, yet them between technologically advanced western gap countries and poor commodity exporters widened. This created a big problem since the competition in economy turned out to be a military competition and so to many wars. The new innovations in trade sector gave a benefit only to some countries, while others fell behind; in particular:

- The **Ottoman Empire** suffered at first big territorial losses, then arrived the economic impact of Europeans, whose imports destroyed local manufacturing, and showed how vulnerable the empire was. They tried to drive back Europeans by combining the Islamic core to the western ways and technologies, but it didn't work much; they tried again with Western style reforms and some European features, like education, infrastructures and transportation, army, services and constitution but didn't push back the European dominance.
- **India** had a traditional village economy blending agriculture and cotton works, but the combination of British rule and competition from machine-made goods imported from Britain led to the collapse of cotton manufacturing and to a de-industrialization, since Traditional hand-made products were displaced by industrial imports and there were no protective tariffs allowed. These problems led to a drop in non-agricultural employment, and so to lower standard of living and emigration.
- **China** had a good economic performance in the previous century, following the Canton system that protected Chinese trade from external influences and made possible nearly only exports, controlling in a centralized way eery trade that was made. Britain started to make diplomatic pressure to lift trade limitations to foreigners, but the outcome consisted in the Opium wars, where the better organization and military technology of the British humiliated Chinese military, that were forced to lift restrictions to European trade, and this created an outflow of silver to buy opium, with disastrous economic and social

consequences of opium habits. The road to recovery was slow and was characterized by the welcoming of western technological modernization and investments and series of provincial rebellions.

JAPAN MEIJI RESTORATION

Pure example of a text pretending to be English

Japan's traditional self-imposed seclusion, that meant having no travel abroad with just one window on the west in the port of Nagasaki, terminated by Commodore Perry in 1853 that entered in the port of Tokyo with the American navy, that forced the Japanese to sign an unequal treaty to create commercial links with the US and Britain. This action created an internal political crisis, and the Japanese alarmed and started interest in technology and restored the imperial power, that led to a change in the political thought of the government both in foreign politics, with the cooperation with external powers, and in the internal politics, with the State that took the control on the development strategy, adopting foreign ways with the Japanese style. The Japanese could rely on some **assets**, like the tradition of cultural imitation, the educated and patriotic workforce and an internal advanced economic organization, but also on some **weaknesses**, like the technological gap and the lack of key natural resources. The development strategy consisted in the state coordination and planning, without becoming a completely commanded economy like Russia, institutional reforms and modernized the country without destroying its own culture, with these features:

- Students were sent abroad to study the foreign societies and economies and bring knowledge back to Japan
- Administration was reformed along French lines, army was updated following the German model, navy and transportation followed the British lead, industrial methods were imported from the USA

After these early actions, the Japanese opened their market, importing western technology and technicians, and promoting private enterprises (organized in large conglomerates) and exports. The main industrial sectors were **textiles** and **heavy industries**. They also started to gain political importance in the western world by making war with China, Russia and annexing Korea.

THE RISE OF LATIN AMERICA

Latin America relied on the colonial legacy, that means that, on the social side, the problem of the resilience of colonial social structures was still dominant, with a high level of social exclusion and literacy, and on the political side the internal divisions, political instability and contrasting paths, divided in Portuguese and Spanish colonies. In the postcolonial period Latin America saw a development, that divided its countries in three categories: rich (like Argentina, Brazil and Uruguay), middling (Mexico, Colombia, Peru) and poor (Bolivia, Paraguay). The abundance of land and natural resources attracted many people, and so a big flow of migration with Europe was shortly created. The governments of the Latin states tried to modernize their country, but the first try with the state coordination didn't work, since they relied only on the inflow of European capital (and so their **credit system**), and focused only on the extraction, processing and transport of raw materials (mineral ore from Central America; bananas, coffee, cocoa and sugar from the northern country of South America and wheat, cattle, skins and frozen meat from Uruguay and Argentina) to developed country, made easier by the new steamships and the creation of refrigerated ships, without making any change in the development of their own economy. Thanks to foreign investments, some new features emerged:

- Infrastructures, like railways, financed by GB and USA
- New banks and banking tools, coming from GB
- Shipping industry expanded thanks to GB
- Mining and smelting industry expanded thanks to both American and British investments
- Tropical fruit, sugar and coffee exports were mostly controlled by the Americans

In this little development the rise of Argentina emerged, since the frontiers were opened, and so a neo-European society rich in resources and skills made possible the fast growth of the country, setting high standards of living for its citizens and pushing economic progress, even without a great expansion in industry.

THE GREAT DEPRESSION

In the last decade of the XIX century, a series of downside effect to the big changes that happened during the century happened and consisted in a mere slow down of growth. The industrial world fell into a crisis, caused by the fact that there were too many goods and too few buyers, that generated a fall of the prices, with the new economic integration and international trade made matters worse. The industrial output, consequentially, dropped in prices, and the system of mechanization and great international competition started to slow down. The main reactions were:

- **New social legislation** to reduce internal tensions and conflicts
- **Rise of "big business",** with monopolies, trusts and cartels to protect the prices, alongside the managerial revolution
- **New colonial takeover**, that involved mainly Africa, to guarantee cheap raw materials and to secure exports markets and investment opportunities

"SOCIAL QUESTION" AND EARLY REFORMS OF WELFARE

One of the biggest issues of the 19th century was the **social question**. Before the industrialization of the world, the enterprises were small, so that the employees know each other and create strict relationships. In the new industrial complexes, the employer couldn't know every one other, and so the work was made more boring, since all obligation were discharged with the payment of wages. Since the little skills were required, the phenomenon of the proletarianization of workers happened very quickly, and so the level of life of the average worker dropped, since he was completely abandoned at the first accident that occurred. The workers lived in slums, in very poor hygienic conditions, and couldn't organize themselves to fight for their rights, since the laws didn't permit them, because it was seen as a damage to the market. Trade unions tried to avoid exploitation, but at that time it wasn't possible to make a significant change, so new legislations were needed, and the two main countries that made a step in this direction were Britain and Germany, that were the two main industrial nations in Europe.

GREAT BRITAIN

The British tended to be more reluctant to intervein, since their idea of the economy was that the market should've been left free, without intervention. With the Poor Law in 1843, England made a little step towards the workers, but the idea was still that part of the poverty was fault of the people, since they were lazy, so the legislation gave the minimum help possible, making public welfare as unappealing as possible. They divided the poor in two groups: the first was made by the **deserving** and entitled ones to have some help, the second was made by the **undeserving** poor, people unemployed because of their laziness and unwilling to work. Then, another law came out, the Factory Act, that limited child and female work and reduced the number of working hours per week. These steps were not enough to enhance the quality level of the worker's life, so **organizations from below** were created, mostly based in Manchester, the capital of British industrialization; the most important were:

- **Friendly societies**, freely joinable by the people, that provided some benefits, like the mutual associations and the financial and social services to members, like old age pensions
- **Cooperative enterprises**, where everyone could own share of these voluntary associations, which started the discussion of social economy and profit distribution issues
- **Trade unions**, that were associations of wage-earners, that tried to have collective activities by members working in the same line of production; at first were declared illegal, because politicians thought that they were dangerous for market balance; in 1871 legalized

SOCIALISM

From the second half of the 19th century, a new reading came out, and started to influence the world: Das Kapital of Karl Marx. In this book, Marx gave a new interpretation of history and divided the society in employee and employers, and denounced capitalism for his impact on the life of the poor. This new doctrine went against the liberal one of individualism, promoting **cooperation** and **mutualism**, aiming for a **collective ownership** of everything and a state-planned economy. This thought spread in the mind of the workers, that divided themselves in two parts: the **reformers**, that wanted to gradually change the society and the **revolutionaries**, that wanted an immediate revolution. It was the first example of a political party come from below.

GERMANY

German rapid industrialization contributed to the creation of a large working class and to the rise trade unions and of a new socialist party, the SPD, that was seen at first as a potential danger threat. Differently from Britain, Germany legislation tried immediately to mediate the social conflict and **Social Welfare Reform** were introduced by Chancellor Otto von Bismarck as a means "to reconcile the working classes to the authority of the state. Many other acts were made possible, like the accident insurance law and the old age pension law and made Germany the state with the most advanced social legislation in the world. Money was not taken form the taxes, but employers and employees had to collaborate to create a nest for compensation. This turned out to be the most effective method in term of social legislation and so was adopted by many other countries. Germany created the first form of welfare state.

THE RISE OF BIG CORPORATIONS AND SCIENTIFIC MANAGEMENT

Before the XIX century, big businesses tended to be few, and the market was made mostly by little firms. During the XIX century, the number of big corporations rose, and they started to take more and more control of the market where they operated, limiting competition and controlling every phase of the production chain. These corporations operated in many countries and sometimes became so big that the legislations had troubles in managing them.

To regulate the market, two roads were taken:

- **Cartels**, German model, that consisted in the agreement between rival firms to control the prices and curtail competition
- **Trusts**, American model, where rival competitors got together to monopolize the market, restricting the competition; to contrast them, some anti-trust legislation came out, that stated that, if a company had too many shares of the market, it could not sell its goods

These big new corporations acted in many countries, operating in other economies than their mother-country's one, called **host economies**, so that they could exploit the situation in those areas to minimize risks and cost, and also be influential in the sovereignty of the host countries. The most important sector where these multinationals started to work were <u>oil</u>, <u>communications</u>, <u>automobiles</u> and <u>chemicals.</u>

MANAGERIAL REVOLUTION

In the last decades of the XIX century, a managerial revolution happened, coming from the new idea that these new big corporations and firms had to be managed by someone specifically trained. The revolution followed two trends:

- **Division** between the owners and the managers, as the last ones were experts of the job; this idea brought to a big change in business at the end of the 19th century
- **No need** of having prepared managers, but put more focus on the division of work in a scientific way, in order to increase the productivity; a theorist of this thought was Frederick Taylor, which suggested Henry ford to adjust the productive line and add the assembly line, that brought Ford to success

NEW IMPERIALISM AND AFRICA

Since there was a need of cheap raw materials and new possibility of investments, western states saw Africa as a land of opportunity, like America was in the 16th century. Until 1880 Africa was colonized only for a 20% of its territory, in the following 30 years it was totally colonized. The earlier colonized spots were just the ones used as safe ports for the international trade, so they were mostly controlled by Portuguese and British. Between 1885 and 1914, a big colonization of Africa happened with the earlier colonizers (like Great Britain, Spain and Portugal), that expanded their earlier safe ports and controlled mostly the coastal territories, while the new colonizers like Italy, Germany, Belgium and France (that was present earlier, but in a little way) that used the colonization as a way to state their new political power in foreign affairs. Colonialism was seen at that time as a benefit for both the colonizers and the colonized, since the first got new opportunities and a source of cheap raw materials (that fuelled the territorial competition), while the second would've started their road to economic, social and cultural progress.

Question 12 of second partial sample questions

Second partial (part 2)

ECONOMIC IMPACT AND CONSEQUENCES OF WW1

The first world war had an impact never seen before:

- Ca. 10 million people were killed, 20 million wounded
- The **financial** and **material losses** were huge, 50% of national wealth
- Decades-long growth was interrupted, cross-border trade and investment were disrupted
- The states applied the **war economy**, that means that the state controls everything in production, manpower and consumption, paving the way to the authoritarian states

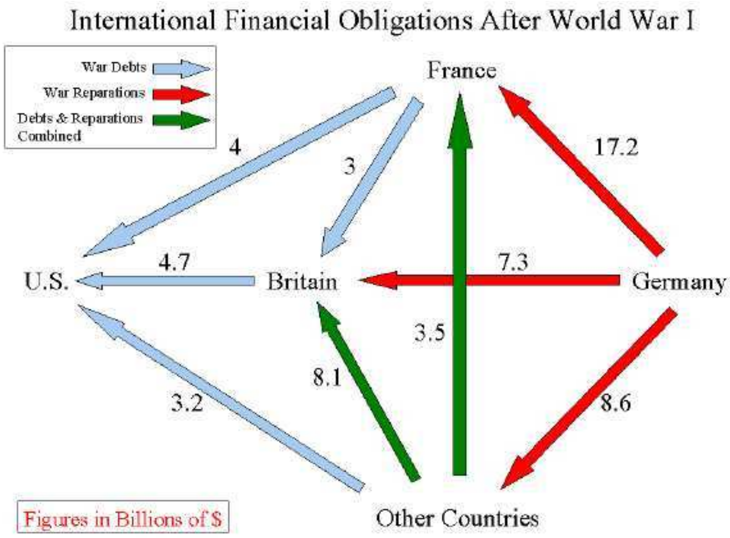
From the **territorial point** of view, the empires were all disrupted (except for Britain), and Russia went into a revolution that changed its history until this day. European hegemony came to an end, since Europe was exhausted both financially and military; this brought to the rise of the USA to the financial lead of the world, since they became the creditors of the world after the war. They were the one indicated also for the political and economical leadership, but they decided to isolate themselves, leaving the world in a state of constant uncertainty.

From the **financial and economic point** of view, the war created a huge financial and monetary disorder. The economic breakdown couldn't be faced in a short period since there wasn't an international body, that would've administered the recovery. Western European share of world trade dropped from 53% to 43%, and global trade returned to pre-war level only in 1993. The war left a huge legacy of economic instability, mainly because of:

- **War debts**, since the war was mainly financed by the war debts, that consisted of average 80% of war expenses, with Germany as the only exception, with almost all the expenses financed by debts, that created a huge problem after the war. Those were debts that states created with other parties of the economy to finance their military expenses. Mainly they were financed by the USA or by American privates that expected their money back.
- **War reparations**, that were decided by the head of the winning states (England, Italy, France and USA) in the Treaty of Versailles, and consisted in huge amount of money that the countries that lost the war had to pay for the damage created to the winning country; in particular, Germany was considered the only big guilty of the explosion of the war, and so the reparations asked were far from their possibility, also because of the high war debt that was created; "the humiliation of the biggest industrial country in continental Europe would've conducted only to terrible consequences" (J.M. Keynes).
- **Inflation**, that was the consequence of the first two points, since the war created a high need of new money, and so this increased the amount of money, and so the prices rose; from this crisis came a lot of social problems (1 dollar in 1914, consisted in 4146849 dollars in Russia and 1261600 in Germany in 1923).

GERMAN HYPERINFLATION

Since the big amount of war debts that Germany already had to pay, its new government failed to pay the first part of the reparations imposed by the winning states. France responded sending military troops into the Ruhr region, the heart of the German industry. The Weimar government responded with a general sit-down strike. Throughout the occupation workers were paid to not produce anything. The situation in Germany was critical and the inflation rose to an incredible level.



The Allies owed the US ca. 10 billion dollars, while Germany was strapped with 33 billion in reparations.

The American saw the difficulty of Germany and applied the Dawes plan, that consisted in the lend of money by the American state or privates to the Germans, in order to restart their economy and not sink, so they could pay the reparations with the Allied, which in turn had to pay back to the Americans the war debts. In general, the Dawes plan:

- Established a Reparation Agent
- Reduced German obligations
- Restructured German debt payment schedule
- Provided private American loans to start payments

This system contributed to renew the German economy, but created the problem of dependency from the USA, and so when the American economy crashed in 1929, the German suffered all the effects, sometimes even worse.

THE PLANNED SOVIET ECONOMY AND THE NEP

During the war, Russia passed a big period of revolution, that changed its life until our days. The tsar power was banned, mostly because of the failure in the war, and a new government, run by the Soviet, a council of workers, was created. The government wanted peace at any cost, and so Russia had many territorial losses, the civil war that started later killed 15 million people, production had an 80% decrease and inflation rose. The civil war was won by the Bolshevik, that in the February and October revolution obtained the power. They wanted to put communist theories in practice, and so free enterprise became illegal, and all banks and industries started to be seized by the government. The western world was crossed by the “red scare”, the fear that also the workers in their country would’ve created social problems.

The new-born Soviet Union applied a new economic policy in 1921, that had to reshape the Russian economy after the post-war crash. At first it consisted in a **mixed economic model**, that means that the big industrial complexes went under the power of the government, while the other little firms continued to be private. The Soviet council planned every state expense and every action in the economy, and in 1927, released the “Five years plan”, that consisted in:

- **State commission** to set priorities and production targets
- **Speeding up the industrialization** of the country, making investments in **defence**, **infrastructures** and the industrial production was oriented to the consumption of the group, compressing the individual one

Thanks to these actions, the Industrial output <u>quadrupled</u> during the 1930s, inverting the trend that was passing the western market economy of recession. In the end of the 1930s, Russia was a modern industrial country, creating a big rival to the American market economy, shaping **two blocks** in the world geopolitics, that characterized the XX century.

<u>THE GREAT CRASH</u>

In the 1920s, America enjoyed a decade of prosperity, with 5% of unemployment on average, rise of GDP and <u>mass production</u> granted a wider range of affordable products like cars, and also broadcast and marketing became mass ones, with the arrival of the movies and radios on one side and the establishment of the consumerism on the other. This prosperity relied on the market of houses and durable goods, like cars, but after the 1926 the reduce of immigration, reduced also the demanding. Also, other problems came out:

- **Farms** went in overproduction, and so the prices fell
- Low wages leaded to an **uneven distribution of income** (richest 5% owned 33% of national income)
- **Overproduction of goods and services** started to be uncontrolled
- **Financial troubles**: banks started to loan money to everyone, so they can buy homes, goods and stocks <u>on credit</u>
- The investments in stocks were mainly based on the thought that the stocks would’ve rose in a short period, since it was a prosperous time
- Stocks started to be totally **disconnected** to the real world; in this decade the industrial output rose by 50% while stocks by 400%

The market reached the bottom in July 1933, after 4 years of slow but consistent decline, fuelled by the many policy errors by the government, in fact:

- **Wrong monetary policy**, since Fed raised interest rates and did not act as a lender of last resort, and money in circulation was reduced to prevent inflation
- **Wrong economic policy**, since the thought of ‘let do’ drove the government to do nothing and let the market fix itself
- **Wrong fiscal choices**, since income taxes were doubled, corporate taxes were raised, and new VAT taxes were introduced
- **Wrong trade policy**, in fact USA raised trade barriers and the farmers lost 1/3 of their foreign market
- **No “welfare” policy**, since they were guided by the thought that government should not guide relief measures

All these errors brought to the great “contraction” between 1929 and 1932, when US GDP fell over 30%, average of stock prices dropped 90%, US industrial output contracted 46%, export dropped 70%, whole sale prices fell 32%, unemployment reached 25%, with thousands of families that were evicted from their farms and their homes, and 44% of banks closed, since the rush on the bank made deposits unprotected and depositors lost their savings. Poor Americans started to live in shacks and tents.

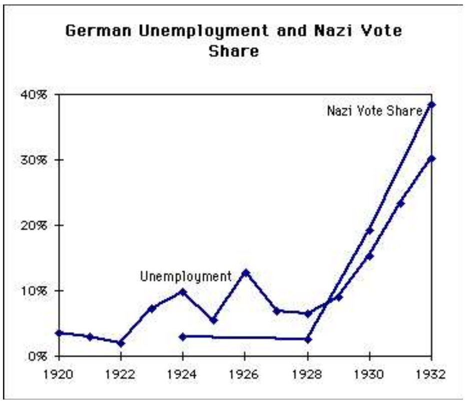
THE GLOBAL REACH OF THE CRASH

The American crash had big consequences also the rest of the world. On average the world GDP contracted for almost -15%, the demand of raw materials suffered a dramatic decline (wool -72%, meat -53% f.e.) and generally from 1929 to 1933 world trade declined by nearly 1/3. The consequences were that unemployment and impoverishment reverted some countries to belligerence and in trade sector, hardship and inequality radicalized governments and turned public opinion against foreign influence. Latin American countries were trade dependent economies with small industrial sectors, so trade flows disruptions had an adverse effect, that was tried to recover with protective tariffs, that didn’t work. After WW1, Latin America tried to change its dependency from Europe to the US, but the depression crushed what remained. Between 1929 and 1932 the value of exports fell by two-thirds, and so political and financial upheaval followed, that brought to 16 military style takeovers and frequent State bankruptcies. In Africa the situation was no better, since its regions became dependent on mono-crop exports, that caused a drop in prices, while investment dropped, and colonies were squeezed to mother country advantage.

The world reacted to the depression in an **authoritarian** way. Lots of trade wars and protective tariffs started to come out, and the failure of liberalism was declared, since People felt let down by institutions and by an economic system that had produced the crisis and was unable to respond to it. Market economy and political liberal institutions seemed to vanish in this period, blocked out by the rise of authoritarian regimes, that multiplied and in fact:

- Italy, Germany and Spain went under those regimes, while a military takeover happened in Japan
- The regimes supported **corporativism**, that means that the state mediates between social classes to avoid tensions

- State direct interventions in key economic sectors, that seemed to be the only answer to the problem of the crisis; the state didn't own the firms but directed their decisions
- More State spending but less private consumption, since the national well-being was put in a higher position of importance than the individual benefit
- An alternative revolutionary social and institutional model was given by the USSR, whose industry expanded greatly in the 1930s, where industrial output was growing, and the society seemed to work well



This graph shows why the dictatorships took the power; they relied on social anger for some reasons (in Germany the crisis, in Italy the few gains in the WW1 peace treaty), and so only with a strong state command it was possible to rise again.

THE NEW DEAL ECONOMIC POLICY (1933) 16

The new deal economic policy was the main feature of the 1932 Roosevelt presidential program, and the main idea was that it was needed to introduce federal programs to fight the slump. No one had ever theorized this economic idea and it was the first time that someone proposed it in a liberal state, but the situation was so dramatic that it was better to try something new rather than try old economic policies. The main goals were: relief for those in need, economic recovery and financial reform. To reach these goals the state had to go into a deficit spending in order to reverse the economic downturn, reversing the earlier idea of balance between cost and revenues. Once Roosevelt was elected, he proposed 3 main acts to reshape the American economy:

- **Agricultural Adjustment Act**, that consisted in the reduction of crop production and the raise of their prices, with subsidies to farmers reducing key productions
- **National Industrial Recovery Act**, that established a code for fair business practices and standards for working hours, guaranteed workers' rights to unionize and funded 34000 public projects, giving a job to 3 million men
- **Emergency Banking Act and Glass-Steagall Act,** that created the SEC, a commission to control wall street burse, the Federal Deposit Insurance Corporation, that was a body that guaranteed federal insurance on deposits, to save them from private banks sink, and promoted the Federal Security Act, that were federal laws to protect investors from fraudulent trade

THE KEYNESIAN REVOLUTION 16

Since the traditional neoclassical school of economics proved unable to tackle the recession, a new approach was proposed by J.M. Keynes, based on two important pillars:

- Full employment is not the natural condition of competitive markets, so since it is possible that not everyone is employed, that is a social problem, the state has to intervene to balance the macroeconomy
- State intervention is necessary to regulate the ups and downs of the business cycle, based also on what he was seeing in the world at that time, when the states at that time that were having problems were the ones that had still liberal economy, while the ones where the state was commanding the economy were the ones that were getting healthier

He was the first to theorize those kinds of ideas, that guided the western governments until this day.

THE NEW WORLD ORDER AFTER 1945 17

The second world war turned out to be the worst war in human history, since it was the largest and the deadliest conflict ever. Over 55 million people died, and Europe saw its territories totally destructed. After the war three were the main geopolitical consequences:

- Two super-powers took the lead of the political war, **USSR** and **USA**, that conflicted each other in the "cold war", a war of distrust and political tension, without a military conflict
- European economic dominance came to an end, since Great Britain couldn't play an important role anymore, and a new period of free trade and self-determination brought to the beginning of decolonization
- Two economic system, that followed the ones of the super-powers, divided the world in two parts: market economies, US and allies, and planned "communist" economies, USSR and allies

In the western society, politicians learned from the past and tried to avoid those kinds of problems, and so many institutions were born:

- **United Nations**, that was a world political body where people could sit and discuss of their problems
- **International monetary** and **financial agencies**, mostly established at the monetary conference in Bretton Woods, that established the dollar as global standard, pegged gold at 35$ per ounce and created institutions like the **IBRD** in 1944 (later the World Bank), that helped the development of the countries that were severely affected by the war, the **IMF** (1945), that is a fund created to help countries to prevent economic failure and acts as lender of last resort, and propose emergency laws and recommendations. The ultimate goals were promoting cooperation, global reconstruction and development and the freedom and development of the colonies. Later it was created the **OECD** (1948), that was an attempt to make the European countries to cooperate
- **International cooperation**, with the promotion of the **Marshall Plan**, a plan of aid that came in the opposite direction from the decisions after WW1, helping the countries that lost the war, and the creation of **ITO** and **GATT**, two cooperative bodies that had to create a system to discuss tariffs, reduce trade barriers and try to globalize again the world
- **Reduction of social tensions**, following the Beveridge's "white papers" to create a welfare state, since they understood that if people would've got a system of social security and

services, they would've been less keen to create social tensions and to radicalize themselves politically.

THE BEVERIDGE REPORT

William Beveridge was a liberal member of parliament that promoted the welfare state. There was the desire to create a more equal society, tying to shape a better new society after the war. It was public responsibility to make sure that we get a better and equal distribution of income and wealth and equal opportunities. Creating the premises to a new social contract and redrafting a safety society. The new vision after the war were:

- Public power should use resources for **welfare** of individual to improve their situation vs the traditional use of public resources for warfare. Up to World War 2 the state has used its resources to financial war, however after the 2nd world war the state should try to use resources to guarantee better living standards and better opportunities. It's a revolution in the goals that a state should have put together freedom with purity and responsibility.
- Blend state intervention, security provided by the state is not going to equate with the subversion of the tenets of democracy and market economy.
- Reopening a new direction and the welfare system try to bridge two different political and economic areas.

There was the desire to create a more equal society: "The purpose of victory is to live in a better world". A new national social security system for everyone:

- Minimum standard of living "below which no one should be allowed to fall"
- The major risk of loss of earning sickness, unemployment, old age, accident, maternity, widowhood should be covered by a national insurance; protection from the five giants
- Introduction of Progressive tax rates to reduce inequality and redistribute wealth, the way used to finance this kind of reforms

The new welfare system defined new social rights and make provisions on how they were going to pay for this system.

THE EUROPEAN RECOVERY PROGRAM 18

After WWII there was no debate about war reparations. Seen the effects of the bad decisions after WW1, US understood that giving economic aid to Europeans power that had to reconstruct themselves would've gave them two big advantages:

- **Economic**, since the Americans needed the Europeans and Japan to reshape in order to re-establish a normal world-trade, so that they could control it; also, the poor economic countries that needed to reshape could only buy goods that the Us offered, so their internal production would've reached record levels, making possible the storm of the lead in economy.
- **Political**, that came from the economic help; in fact, countries helped by the Americans would've become allied to them, and had to follow their political directions in order to not lose the economic help.

So, a great recovery program offering extensive economic aid to European countries and Japan was launched, that consisted in 12.6 billion $ aid, and the supply of food and goods free of charge. The European Recovery Program funds were jointly administered by the US with the States helped and were made mostly by long-term loans at very low interest rates. The particularity of this decision was that the aid went only to rich countries that were passing difficult times because of the war, and the other historically poor countries were left behind with very little help. USSR and allied didn't received any aid because of the political tension between the two blocks.

FROM DE-COLONIZATION TO THIRD WORLD 19

In the post war years there has been a growing gap between economies destroyed by the war and the US, the most stable economy. In fact, consumerism spread throughout Europe, symbolizing a new wellbeing opposed to war austerity, but it was impossible to ignore the greater part of the globe: underdeveloped countries, still in precarious living conditions. Those countries differed in size, religion, position but shared 3 important characteristics.

- Almost all located in the Southern Hemisphere
- Many still colonies/protectorates
- Unstable politics

Also, dependence on agriculture made the economies of the latter extremely fragile due to its frequent fluctuations linked to climatic factors. As regards decolonization, during WW2 much of the world was still subject to a form of imperial dominion therefore colonies were called on to take part in a conflict that took place also in their territories and caused several casualties as well, accelerating the process of disintegration that had already begun. Also, the prevailing approach of the US, winner of the war, opposed the colonial rule in Asia and granted independence to colonies. They considered colonies as intolerably unstable and with the resolution of the Suez Canal crisis, USA marked the end of colonialism in Africa. The colonial empires were an unacceptable anachronism in the new post-war world. This process of decolonization accelerated in the late 1950s and early 1960s when India, Libya, Cambodia, Sudan, Tunisia and Morocco became independent. Many colonies were expected to grow quickly, thanks to the natural resources they possessed, but it turned out that the leaders proved to be uncapable enough to rule and administrate in order to reach modernization and to overcome that permanent backwardness. Also, countries with an high level of natural resources did not easily transform the selling of those commodities in a continuous economic development. So, since decolonization did not go as planned the term "Tiers Monde" was coined by French scholar Alfred Sauvy depicting countries independent from a political point of view but little economy level.

MAIN FEATURES OF THE GOLDEN AGE 20

Following the WW2, the world divided into 2 sides. Developed countries like USA, Western Europe thanks to the US aid, and Japan, who was the only Asian country who promptly also recovered thanks to the Marshall plan. Rich core countries exported manufactured goods (64% of world exports): The "Big Six" (USA, Canada, UK, France, Germany, and Italy) accounted for 46% of world GDP in 1950 and approximately 44% in 1973, while poor periphery countries exported primary products: there was still a huge gap in living standards. Overtime the gap became greater and greater that it was nearly impossible for the newly developed countries to reach GDP levels of UK. Cheap energy and commodity prices fed this economic boom: Americans and Europeans controlled the flow of oil to keep prices low. The development in those western countries also coincided with the start of **consumerism**, roads improved, number of cars constant grew as well as the housing market, and many infrastructures were built. So, thanks to these favorable conditions even the population grew, world population jumped from 2.5 billion in the 50s to 3.7 billion in the 70s. Not to mention + 500% export in international trade. Above all, US economy was the one who grew the most, with national income doubling and middle-class households covering 60% of Americans and it had a strong performance in manufacturing and the service sector. The first glimpses of these dreamy American lifestyles came from the roaring 20s and appeared again during these years, and media and television were set in every home already in the US alimented this process. In Italy as well from 1950 to 1963 GDP doubled as well as mass consumption and consumerism, in Germany and Japan industrial output and GDP doubled. Overall, it was an age of high growth, worldwide GDP in fact expanded at 3% a year.

In the meantime, communist block did not fall behind, concentrating more on public consumption rather than private, and increases their GDP even more than the west in the start, for the period 1950-1970, registering 7-8% annual increment. By the start of 1970s countries who had invested a lot of their resources in reconstruction reached high level of competitiveness. Slow process of re-establishing world trade had begun, economies grew stronger, even though still a long way from level of the first globalization.

THE OIL CRISIS (1973)

The oil crisis was an important catalyst of the last a quarter or the 20th century because it was responsible for the slowdown in the process of expansion, accelerated by America's decision of leaving Bretton Woods agreement. In 1960 OPEC (Organization of Petroleum Exporting Countries) was created, a cartel where oil producing countries tried to organize themselves with 2 purposes:

- try and set <u>stable</u> and <u>fair prices</u> for limiting the clout of the seven sisters, the 7 big American or European oil companies, as they were controlling the process of extracting, refining and distribution, and <u>monopolize the market</u>.
- after 1971 with the dollar devaluation, OPEC tried to limit the damage by setting limit to the price fluctuations, pegging oil prices to gold. During the 1973 Arab Israeli War, Arab members OPEC imposed an <u>embargo</u>, a government order that restricts commerce with a specified country or the exchange of specific goods against the United States in retaliation for the U.S. (and allied) decision to re-supply the Israeli military and to gain leverage in the post-war peace negotiations in Middle East. Arab members of OPEC decided to quadruple the price of oil to almost $12 a barrel. Oil exports to the United States, Japan, and western Europe, which together consumed more than half the world's energy, were also prohibited.

Reaction to the crisis

Coordinated capitalism was derailed by commodity price rises in the 1970s. Developed economies were trapped in the new "stagflation", so called because it combined low economic growth and high unemployment ("stagnation") with high rates of inflation. The crisis led to the advent of "neoliberal" capitalism and to a new economic mainstream: Monetarism. Therefore, new conservative governments emerged. They favored the reduction of state economic intervention, and were determined to reduce social welfare programs, hostile to labor organization. Also, greater interest to develop new oilfields to increase supply and to develop new energy sources (nuclear, renewables…). Japan and other Asian countries shifted away from oil intensive industries, directing a huge flow of investments into new lines of production such as electronics.

COMPETING ECONOMIC BLOCKS AND THE DEMISE OF THE SOVIET UNION

The competing economic blocs were three:

- Comecon (1949- 1991)
- EEC (1957), European Economic Community
- EFTA (1960)

COMECON is an acronym for "council for mutual economic assistance" and it aimed at encouraging economic development of socialist countries and to promote integration with the USSR, limiting trade with the western countries. It had an ideological and political background, and wanted to coordinate national economic plans, but it limited economic integration and used inadequate financial means. After 1963 in fact external trade grew faster than intra-Comecon trade.

Then there is the European Common Market, born in 1957 whose original members were Italy France and Germany who, in 1952, created European Coal and Steel community. Their goals were a <u>customs union</u>, so <u>reduce/abolish taxes</u>, to have **common economic policies** and to a certain extent to standardize institutions, plus it expanded to other EU nations and still today exists and changes.

<u>THE ECONOMIC COLLAPSE OF THE USSR</u>: the worst hit by the oil crisis were the socialist planned economies and during the 80s. The two main command economies that were trying to find a way out and reform were China, that found a way to combine her planned economy to a new direction creating the socialist market economy, and Soviet Union.

Soviet Union's planned economy worked well during the years between the two wars completing the process of industrialization, but after 1975, while western economies rebounded from the oil crisis, the soviet economy <u>stagnated</u> and went backward, GDP went down. The soviet economy came to rely on western loans and imports. Productivity was very <u>low</u> and <u>insufficient</u> for maintaining the population. Standards of living were far behind to put it in a nutshell. In 1985 a new leader called Gorbachev proposed both a restructuring of the economy with the **perestroika**, the policy of restructuring or reforming the economic and political system and launched a <u>new policy</u> of **openness**. Unlike the Chinese, the Soviet Union decided to reform their economic systems as well as their political systems. Russia embraced economic reforms and started to <u>privatize</u> industries creating oligopolies, but the process was handed badly, and the economy went into a dramatic tailspin. The liquidation of assets and industries caused economic upheaval. This command economy was destroyed and between 1989 and 1991 the Soviet Union disintegrated, the Eastern European countries that were part of the Russian communism broke free and the SU turned into CSI, a loose <u>confederation</u> of independent states. During the 90s Russia was at the bottom, i<u>nflation surged,</u> and GDP dropped about 40% between '89 and '92. The collapse of the Soviet Union and the demise of socialist economics was seen as triumph for capitalism and market economies. It had a significant recovery only after 2000. The outcome of these changes over the 2 biggest socialist economies were that China started economic reforms but was reluctant to introduce political reforms, so this path was more prudent, and it worked as the economy did not collapse. They managed to **privatize** the economy but keep control of political process. On the other hand, Russia moved in a different direction, first reforming and opening the market with Gorbachev, and lastly with political reforms of openness. But that did not work well and resulted in a crisis politics and economy-wise. To some experts, it was an end of an era, a peculiar kind of history where tensions between socialist and market economy ended.

3RD INDUSTRIAL REVOLUTION AND RISE OF THE FAR EAST 2B

The third industrial revolution was an indirect crisis to the oil shock crisis because some countries decided to shift their production to other fields such as electronics, and those were defensive moves that encouraged changes in this other direction. It was introduced a new era: the digital one. The digitalization of production as well brought several changes in terms of work organization. All these big companies were settled in the pacific coast of California but lot of this also on the other side of the pacific like Korea or Japan. Those countries were very effective in intercepting the new technologies and adopt them. They tried to produce more with fewer people in order to optimize and reduce costs and relocate production where labor cost is cheaper and sell where higher prices. These two key areas for tech production were located in the Far East and eastern America. Japan was one of the first innovative countries in shifting attention from the oil industry to the tech industry, involving the neighbors like Korea, Singapore, Hong Kong and Taiwan that helped the rise of electronic in Asia.

- Korea: very large production of car and electronic appliances
- Taiwan: third world producer of computers
- Hong Kong and Singapore: key financial and service hubs

Japan had a very strong strategy too, and strong patterns of development like a very self-disciplined and closing of ties Within state and business. Also used a useful organizational model: teamwork. Japanese financial flows and industrial delocalization: By 1990 Japanese firms had created 1 million jobs, because the strategy was to invest in human capital, education, long-term handy strategy. There was the adoption of new technology plus export oriented economic policies. GDP per capita growth of the Asian tigers was exponential at the time.

REDUCING THE ROLE OF THE STATE: PRIVATIZATION AND DE-REGULATION

The crisis brought important reaction from the political point of view and economic thought. Basically, the 70s crisis ended the coordinated capitalism that had emerged after WW2, derailed by the rise of prices of commodities in the 70s. It was a period of stagnation due to high inflation combined with low economic growth and high unemployment, a difficult period to recover from for developed countries. So, this led to a new political mainstream, “Neoliberal Capitalism”, born with monetarism and Milton Friedman from the Chicago school. This new mainstream was of paramount importance because it insisted on the fact that it was important to **control the money supply in order to reduce inflation**. But they also had a direct approach towards state intervention in the economic sector; they thought that many sectors would have worked better when privatized, not state controlled. Basically, the government was encouraged to stay out of business matters and economy. As a direct consequence a period of de-regulation, liberalization, and privatization (that is namely selling to the private sectors activities previously controlled by the state) began. Another challenge was concerned with wisdom of welfare, becoming so wide that it discouraged responsibility, enterprises and encouraged laziness. So, by reducing the size and benefits of the welfare making it less costly people were again encouraged to be more independent and the economic cycle started to recover. The 2 important political leaders who interpreted this system were Margaret Thatcher from Britain and the American Ronald Reagan.

MODERN CHINA IN THE GLOBAL ECONOMY

China's economy took a new direction in the 70s. A symbolic event happened in 1978 when the leader of the communist party Xiaoping paid a goodwill visit to Japan setting aside disputed and deciding to pursue joint development, a crucial point in history setting the rise of China. The latter was also ready to start a reform of opening program finally moving from a planned socialist economy to a newly **socialist market economy**, a system is based on the predominance of public ownership and state-owned enterprises within a market economy, seen the unsuccess of the previous. Yet retaining socialist values and ideologies introducing private enterprises. This blending worked quite well because from the 70s were introduced <u>market principles</u>, <u>de-collectivization</u>, <u>privatization</u> and <u>contracting out-of-state owned industrial complexes</u>. Plus, China encouraged entrepreneurs to develop new economic sectors and started opening to foreign investment, at the start mostly Japanese, that reversed the economic dominance of little developed countries in Asia. China replaced Japan and the other tigers as the main economic powerhouse in Asia reshuffling the hierarchy. Above all lately, China's boom, from the 1978 to the 21st century, had been steady and high. China emerged as the leading industry nation and the biggest manufacturer items, like steel, ships and textiles, with GDP constantly rising. Key feature for this success is the mixture of command economy, imperial traditions and some lessons coming from the Japanese development. They had state directions and planning the development, they were able to encourage lots of foreign financial investment, offering a disciplined work force. One fundamental feature was its **export-led growth**, where exports were more than imports allowing China rapid development. Along with <u>sea-port cities</u> huge developments creating real city clusters. 3 were the most famous megalopolises: Beijing, administrative and logistic hub, Shanghai, main financial center and pearl river metropolitan region, Guangzhou Hong Kong.