

# Historical Perspectives Summer Exam

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## What is Globalisation and how Have Economic Historians Attempted to Measure It?

Globalisation refers to the process of economies becoming more integrated and interdependent, it involves the ‘*transfers of commodities, people, capital and ideas between and within continents*’.<sup>1</sup> Depending on the time period, economic historians can use a variety of sources however the main two are: The *value of trade*, by analysing the value exports and imports historians can find insights into the degree of integration in global markets, a growth in trade over a period would highlight an increased market integration. Secondly, *Migration*, the movement of people between economies, highlights greater labour integration and enables the diffusion of ideas and knowledge, also indicative of a greater degree of globalisation. Historians can appraise the level of migration through ticket records for ships and trains, or exogenous variables such as disease exchanges.<sup>2</sup> Meanwhile, Taylor and Williamson used wages to measure the impact of migration: between 1870-1914 wage dispersion to fall by 28%, showing a convergence between poor and richer countries and a higher degree of globalisation.<sup>3</sup>

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<sup>1</sup>Judith. (2010). *Historical Perspectives on Long-run Economic Growth*, Lecture Slides for Historical Perspectives ECO00018C (Week 6). University of York.

<sup>2</sup>Stearns, P.N. (2009). *Globalization in World History* (1st ed.). Routledge. <https://doi.org/10.4324/9780203866061>

<sup>3</sup>TAYLOR, A. M., & WILLIAMSON, J. G. (1997). *Convergence in the age of mass migration*. *European Review of Economic History*, 1(1), 27–63. <http://www.jstor.org/stable/41377787>

## What Was the New Economic Policy in the Soviet Union?

Table 1: GDP levels and growth rates in six CESEE countries, 1913-1938 <sup>4</sup>

	Soviet Union	Czechoslovakia	Hungary	Bulgaria	Greece	Yugoslavia
Growth Per. (1921-1929)	16.3	5.7	5.1	4.3	3.5	5.0
Year of 1913 Recovery	1928	1923	1924	1924	1920	1924

The New Economic Policy (1921-1928) was a response by Lenin to the consequences of war communism, it involved a set of economic policies that would hypothetically enable the transition to socialism by acknowledging the relevance of markets and private property in recovery: in the words of Lenin ‘one step backwards in order to take two steps forward’. It involved partial decentralisation: returning agriculture and other sectors such as retail back to private ownership whilst the state kept control of the ‘commanding heights’ such as heavy industry and finance.<sup>4</sup> This allowed peasants to cultivate their own land and sell surplus on the market whilst engaging in small-scale trade. Furthermore, elements of monetary policy were re-introduced: a convertible currency backed by the gold standard called *chervonets*, allowing for greater trade with other economies. Economically, it was successful with economic growth in the period at 16.3% in the Soviet Union, far greater than any other CESEE economy, however when accounting for GDP levels pre World War I, the Soviet Union was the last to recover in 1928.<sup>4</sup>

<sup>4</sup>Morys, M. (ed.) (2021) *The economic history of central, east and south-east Europe the economic history of central, east and south-east Europe: 1800 To the present*. London, England: Routledge.

## Are Communism and State Socialism Identical Concepts, Overlapping Concepts or Entirely Different Concepts?

State socialism is government system characterised by the central planning of the economy rather than market allocation through government fiat. On the other hand, in *Das Kapital*, Marx describes communism as the final stage of development, whilst socialism is the transitory period between capitalism and communism. He described a ‘dictatorship of the proletariat’ where the workers seize the means of production creating an absence of a centralised state, and envisions the abolition of private property.<sup>5</sup> Alternatively, state socialism heavily relies on central planning, through the nationalisation of industries, resources and key-sectors of the economy. For example, collectivisation of capital to workers under state socialism still resulted in significant control by the state: In Stalin’s first 5 year plan there were state-imposed quotas on individuals at both state-controlled (Sovkhozes) and collectively-controlled farms (Kolkhozes), thus the power of the state never truly turned to the hands of workers as envisioned by communism. Since communism deviates from socialism in terms of the role of the state they should not be considered identical concepts, meanwhile, since they both address the inequalities created by capitalism there are overlaps between the concepts.

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<sup>5</sup>Marx, K, 1818-1883. (1959). *Das Kapital* (F. Engels, Ed.). Regnery Publishing.

## To what Extent Was Technological Failure the Cause of Britain’s Late Victorian Economic Decline?

Table 2: Levels and rate of growth of real GDP per capita<sup>6</sup>

	1870 GK\$ 1990	1913 GK\$ 1990	RGDP Growth 1870-1913
UK	3,191	4,921	1
Germany	1,913	3,833	1.6
US	2,445	5,301	1.8

During the 18th century, Britain emerged as the pioneering industrialised economy, achieving remarkable growth surpassing that of any preceding economy. However, its growth momentum diminished during the second industrial revolution (1871-1914), while Germany and the United States continued to experience substantial expansions in their real gross domestic product (GDP). Table 2 demonstrates that the United Kingdom’s real growth rate remained steady throughout the second industrial revolution, while Germany and the United States achieved impressive real GDP expansions of 60% and 80% respectively over the same period. <sup>6</sup>

Table 3: National proportions of world manufacturing output 1860-1913 <sup>7</sup>

	1860	1880	1900	1913
UK	19.9	22.9	18.5	13.6
Germany	4.9	8.5	13.2	14.8
USA	7.2	14.7	23.6	32

It is crucial to make a semantic distinction between absolute and relative decline. In absolute terms, the British economy did not undergo a decline or recession. However, in relation to other industrialising economies in Europe, Britain experienced a significant decrease in its share of global manufacturing output. Figure 3 illustrates this trend, demonstrating that the UK’s proportion of national manufacturing output was far superior to Germany and the United States in 1880, at 22.9%; yet by 1913, its share had declined to 13.6%, lagging behind both Germany and the US, which stood at 14.8% and 32% respectively.<sup>7</sup> Britain’s absolute stagnation and its relative decline must be framed in the context of the industrialisation of both Germany and the US, did Britain fall behind

<sup>6</sup>Crafts, N. (2004). *Long-run growth*. In: The Cambridge Economic History of Modern Britain. Vol. 2. Cambridge University Press, pp. 1-24.

<sup>7</sup>Magee, G. (2004). *Manufacturing and technological change*. In: The Cambridge Economic History of Modern Britain. Ed. by Roderick Floud and Paul Johnson. Vol. 2. Cambridge University Press, pp. 74–98.

due to endogenous changes such as lack of technology adoption or did Germany and the US simply over take due to their inherent advantages?

Both the first and second industrial revolutions are hallmarked by major innovations: the former by steam and coal, and the latter built on electricity and combustion engines.<sup>8</sup> In the first industrial revolution, the main inventors and entrepreneurs for motive power were British (Watts, Newcomen, etc.), as a result, these domestic innovations were more easily utilised as the knowledge did not have to be imported from overseas. Furthermore, a combination of high wages and low energy costs created a unique circumstance in Britain that was not seen anywhere else in the world at the time.<sup>9</sup> As a result, Britain had unique advantage that, in Allen's view, enabled Britain to industrialise first due to its cheaper capital relative to labour. Consequently, Britain accumulated a lot of cutting edge capital (in the context of the first industrial revolution) by investing in mechanisation to replace the expensive labour. Since the rest the world was yet to reap the benefits of this technology, Britain's output relative to total global output massively increased.

Despite this, these relative gains were short-lived, the invention of the electric dynamo and internal combustion engines during the second industrial revolution were not British innovations, the former by Gramme in Belgium and the latter by Otto in Germany.<sup>10</sup> These technological advancements created productivity gains in certain applications over steam: Watt's engine was only able to convert 2 percent of the thermal energy compared to Otto's engine at 12%.<sup>10</sup> Furthermore, advancements in chemistry, textiles, and transportation were mostly invented and faster adopted in Germany and the United States. In chemistry, the vulcanisation process that made industrial use of rubber possible was invented in 1839, whilst John Hyatt synthesised the first plastic in 1869. In textiles, Northrop built the first automatic loom in 1894 and it was widely adopted in the US, by this point, Mokyr argues that Britain's textile industries had lost their position at the cutting edge of technology since the adoption of the Northrop loom was slow.<sup>11</sup> Another notable advancement in technology was not necessarily an invention but a production process which enabled greater productivity - 'The American System of Manufactures'. Focused on interchangeability and standardisation, it proved far superior to the skilled artisan and quickly replaced them across the New World. As opposed to Europe, the diffusion of the American System was slowed due to the demand for distinctive high-quality goods and the resistance of labour who feared mass production would make their skill-set redundant. The importance of this system

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<sup>8</sup>Smil, V. (2005). *Creating the twentieth century: Technical innovations of 1867-1914 and their lasting impact*. Oxford University Press.

<sup>9</sup>Allen, R. C. (2009). *The British Industrial Revolution in Global Perspective*. Cambridge University Press, Cambridge.

<sup>10</sup>Wales, R. , Woodruff, . Everett B. , Russell, . Charles R. , Seale, . Robert L. and Landis, . Fred (2023). *energy conversion*. *Encyclopedia Britannica*. <https://www.britannica.com/technology/energy-conversion>

<sup>11</sup>Mokyr, J (1998). *The Second Industrial Revolution, 1870-1914*. From the Northwestern University Web site: <http://faculty.wcas.northwestern.edu/~jmokyr/castronovo.pdf>.

in the dominance of America during the second industrial revolution, and thus Britain’s relative decline, cannot be understated. Not only did American output exceed both Britain’s and Germany’s output combined but Goodfriend and McDermott suppose that American output was 2.21 times higher by 2000 than if the system did not exist.<sup>12</sup>

These advancements shed a light onto the late Victorian decline of the British economy, suppose there was less initial inertia in the adoption of new technologies described above, the British economy may have retained its spot as the largest producer in the world. McCloskey in his famous article “Did Late Victorian Britain Fail?” opposes this by providing a neoclassical perspective. Firstly, that the re-allocation of capital to domestic sources would have run into diminishing returns, and secondly, that British firms were efficient since the competitive environment prevented structural errors at an industrial scale. On the other hand, Pollard supports the initial sentiment, arguing Britain’s shunted growth path was partly induced by the London capital market’s increase in foreign investment which he argues was beyond reasonable and failed to allocate deserved funding to British industries.<sup>13</sup> Rubinstein concurs, adding that British financiers had a fetish with investment in tropical empires and were too attached to old technology.<sup>14</sup> Kennedy provides a numerical analysis of the potential consequences of such a re-allocation by considering an alternative scenario where the size changes of British sectors during the second industrial revolution matched that of America’s. He determines that, based on a ‘conservative estimates of gains’, the British gross national product could have experienced a significant expansion of 25 to 50 percent.<sup>15</sup> After subtracting net property income from abroad (provided by Kennedy in table 4 of his article) the gross domestic product growth assuming parallel sectoral changes with America can be obtained:

$$\frac{(3084 - 145.7) - (2221.7 - 144.0)}{(2221.7 - 144.0)} \times 100 \approx 41\%$$

Comparing with growth levels in table 2, this would put Britain on a growth path more comparable to Germany’s and America’s 60% and 80% growth respectively, however does not fully encapsulate the issue of British decline. It does support the notion that technology failure induced by London’s capital markets was a major factor in the Britain’s late Victorian economic decline since it did not fully capitalise on the opportunities from advancements in the

<sup>12</sup>Goodfriend, M., McDermott, J. (2021). *The American System of economic growth*. J Econ Growth 26, 31–75. <https://doi.org/10.1007/s10887-021-09186-x>

<sup>13</sup>Pollard, S (1989). *Britain’s Prime and Britain’s Decline: The British Economy 1870-1914*. New York: Edward Arnold. pp. xii, 324.

<sup>14</sup>Rubinstein, W. (1994). *Capitalism, Culture, and Decline in Britain, 1750-1990*. Routledge, New York, NY.

<sup>15</sup>Kennedy, W. P. (1982) “*Economic Growth and Structural Change in the United Kingdom, 1870–1914*,” *The Journal of Economic History*. Cambridge University Press, 42(1), pp. 105–114. doi: 10.1017/S0022050700026942.

second industrial revolution. A similar, but more conservative conclusion was found by Crafts previously, stating that “Victorian Britain *did* fail! With the choice of an American or Germany net investment rate, by 1911 Britain could have enjoyed a 25 per cent higher standard of consumption even after foregoing all property income from abroad.”<sup>16</sup>

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It seems that overall, the extent to which technological failure was the cause of economic decline is substantial, as there is evidence to support that if Britain re-allocated resources towards the new innovations in the second industrial revolution there would be greater potential growth. However, the factors that induced the technological failure in the first place may have a larger role in the whole picture of British decline; specifically, the laissez-faire culture adopted in London’s capital markets combined with a lack of elasticity for capital into new technologies seemed to have been detrimental the funding of British industry. Furthermore, the relative decline of Britain could in part be explained by the its own first mover disadvantage. In the words of a League of Nations study: “It is axiomatic that a country which is a pioneer in industrial and commercial development should lose in relative position as other countries follow suit, even if it gains in absolute terms”.<sup>17</sup> In this sense, British decline seemed inevitable, technology did not necessarily ‘fail’ but simply was made less productive compared to newly industrialising economies whose investment was more elastic as a smaller existing capital stock prevented a loyalty to the older technology as seen in Britain. If British financiers and policymakers foresaw the impact of a retrograding capital stock, perhaps better efforts to improve productivity in the economy would occur and limit the impact of decline. Thus to answer the question of technology failure in British decline, does explain in part Britain’s economic decline. However after numerical analysis, it seems that even if sectors changed in according to these advancements: Britain would still fall short of the growth experienced by the United States and Germany. As to whether this lower potential growth (roughly 40% as apposed to US’s 80% and Germany’s 60%) is a consequence of Britain reaching its potential output and experiencing diminishing returns, a lack of cooperation within industry (which would have been improved through the American System), or a fundamentally flawed strategy by capital markets, and lack of regulation by policy, it still debated by scholars and therefore the quantified extents to which factors contributed to British decline are not fully understood.

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<sup>16</sup>Crafts, N. F. R. (1979). Victorian Britain Did Fail. *The Economic History Review*, 32(4), 533–537. <https://doi.org/10.2307/2595066>

<sup>17</sup>League of Nations (1945). *Industrialization and Foreign Trade*. Geneva: League of Nations.