Britain in the World, 1815-1914

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Rough Script of lecture talk

1. Lecture overview

Britain and the World over 100 years

- Almost like a short history of everything
- Need to pick out themes
- Much will have to be neglected
- We will talk about:
  - The broad pattern of global economic integration in the 19th century
    - The political forces that sustained it
    - and the political forces that helped to dismantle it at the end of the 19th century
  - This means we will organize the lecture around sketching out the increasing movement of what economists rather dryly refer to as the 'factors of production': goods, capital, and labor.
  - Our interest in a sense lies in understanding how in the 19th century the 'world' came to figure in the lived experience of people living in Britain
    - What kind of historical processes result in a situation in which Civil War in the United States can plunge the Lancashire region into a severe unemployment crisis?
- Our starting point will be the events that provide the initial conditions for the 19th century global economy
  - In particular, we will discuss the emergence of British pre-eminence at the end of the French wars
- Although global connections have a long history, many scholars have described the 19th century as the first period of economic globalization.
  - Reasonable people may quibble with that claim, and do, but as we will see the 19th century has a strong claim towards being the first era of globalization in *quantitative* terms: the sheer volume of movement of goods, capital, and people was without prior historical precedent, and it was facilitated by on the
    - 1 hand the revolution in transport technology emerging from the industrial revolution, and
    - on the other by a period of relative international political stability

Part I

2. The big 19th c. switch

- The transition from the economic order of the 18th c. to that of the 19th c. is typically described as a change from a mercantilist system to a free-trade regime
  - Mercantilism was the view that trade was zero-sum. European colonizers sought to guard colonial markets as exclusively outlets for their own products, and to maximize the extraction of raw materials from the colonies
  - Controlling access to a given colonial market had to be defended by force, and many of the wars of the 18th c. take the form of conflict over which national company would have exclusive rights to a colonial market
  - The 19th c. was different: it was increasingly characterized by free trade – particularly in the middle of the 19th c., and it was relatively absent conflict between the major european powers

    * Between the end of the Napoleonic wars in 1815 and the crimean war in 1853 there was no major conflict between european great powers
- What enables this change? Lots of factors but we should highlight
  1. The shock of the industrial revolution which drove global integration and significantly altered the *pattern* of global trade
  2. The defeat of napoleon
  3. And finally, the loss of American colonies. This is much more than the American revolution, but also for instance, Brazilian independence from Portugal in the 1820s
     - Renders mercantilism less viable in the Americas.

3. Industrial Revolution

- We already discussed the history and origins of the industrial revolution within britain, but here we need to consider some of the global ramifications of the industrial revolution on Britain's relationship with the world
  - The first and most obvious result is that industrial technology was applied to transport and it massively drove down the costs – in money and in time – of moving things around the world
    * The effect of this was, among other things, that wheat grown in Illinois could be transported by train to New York or Boston, loaded onto boats, shipped to Liverpool or London, and land on the British breakfast table at a price so low that it could *still* undercut local British production
    * Thus by applying industrial technology like steam trains and steam shipping around the world, the costs of linking together global markets declined. This played an enormous role in teh rise of integrated global commodity markets – something we discussed briefly in the lecture on the Great Depression in the late-19th c.
  - And additional effect of the industrial revolution was to widen inequalities of wealth and power between Britain and other non-industrial nations
    * The same technology applied to trains and steamships could be applied to the military and was – with the rise of new steam powered navies.
    * Moreover, the wealth Britain accumulated from its lead in manufactures could be transformed into military power – it was, although not to the extent that it might have been.
  - Relatedly, the rise of industrial manufacturing in Britain and Europe more broadly wrought a major change in teh long-standing pattern of European-Asian trade:
    * Throughout the 18th c. Europe largely did not have things that Asian markets desired. Britain imported Indian and Chinese textiles, as well as 'tropical' products like spices, tea and sugar, and ran persistent trade deficits
    * Manufacturing, plus political coercion in places like China, upset this pattern, reversing the flows of money from Europe to Asia.
    * In addition, the competition of European manufacturing made Asian manufacturing less economically viable, at the same time that the influx of new manufactured goods raised the barter terms of trade of primary products
      · Barter terms of trade here is simply how many manufactured goods – steam engines for instance – could be bought with a given quantity of primary products – wheat for instance.
    * The effect of this was to incentivise many countries outside Europe to shift towards primary production, resulting in part in a 'de-industrialization' of Asia and a decline in manufacturing.
    * This broader pattern – in which Europe manufactures and the rest of the world produces primary products – is what Findlay and O'Rourke have termed the 'Great Specialization':
      · we can even think of this as the beginning of a coherent concept of 'developing nations' or a 'global south' – a distinction predicated on economic patterns that emerge as a consequence of industrialization.
- Industrialization occurs of course in a context in which trade is common and allowed, an we turn next to considering how that stable trading regime emerged.

4. Defeat of Napoleon

- The precipitating event for the 19th century system was the defeat of napoleon and the political order

established at the Congress of Vienna.
- Historians like Schroeder have suggested that Napoleon might not have been defeated had it not been for his ill-judged invasion of Russia.
  - The retreat from Russia destroyed his army and prompted the defection of allies
    - This is nicely illustrated in the included image. This is a famous drawing by Charles Minard, done in the 1860s, of the progress and retreat of the French army invading Russia. It's often held up as a wonderful example of 'data visualization' as it captures the defeat nicely in a compact pictorial form: the thickness of the ribbon tells us how many soldiers remain in Napoleon's army, the change in color signals the switch to retreat, and the line chart on the bottom shows you the temperature.
  - Failure to secure a settlement results in ultimate defeat
  - Luckily for Britain, the bulk of its role in these wars is financial: Britain helps to finance the war against Napoleon on the continent
- defeat calls for a re-drawing of the European order which happens at the Congress of Vienna
  - The design of the resulting settlement appears to intentionally seek to avoid creating a revanchist power, while encircling and containing France on the continent
  - The settlement leaves Britain in a favorable position and it is worth taking stock of Britain's political situation after the Congress

5. The Balance Sheet of British Power

- The settlement after the Congress of Vienna is typically described as a balance of power, but it was sufficiently lopsided that other scholars such as Schroeder have argued it is better viewed as a period of British hegemony.
- At least, we could see it as a balance between Britain and Russia, with other European powers relegated to middling power status.
- Stability of European system aided by
  - Difficulty of British navy damaging Russia,
  - Difficulty of Russian army damaging Britain
  - Relative weakness of other powers

6. Naval balance sheet

- The lopsidedness of the powers of the European countries after the war can be seen partially in the Naval Balance of Power
  - The graph depicts the number of ships in each navy from 1805 to 1830
  - Clearly, the British navy in 1830 was more than 2 times larger than its closest competitor – and this does not even factor in the underlying quality of the ships.

7. The effects of the war: the blockade system

- Before moving on it is worth thinking through the changes that were engendered in the global trading system by the French wars
- Part of the economic dimension to the war was the Blockade system: Napoleon barred european goods from the continent
  - The blockades need to be thought of in terms of the mercantilist conception of the world: British products (like cloth) were being barred from e.g. France so as to prevent French gold from going to Britain
  - The reverse of this was the idea that French food flowing to Britain, thus draining British gold, was to the advantage of the French
    - This leads to behavior that a half-century later would look strange, such as in 1810 when Britain faces food shortages due to a bad harvest and France exports food so as to extract gold from Britain
    - Nowadays, we would think of feeding your enemy so as to defeat them as a strange logic
    - Reflected a view that British success would depend on financing the war – and potentially underestimated Britain's capacity to borrow.

8. The effects of the war: prices

- The blockade had real effects on trade flows, in particular
  - The flow of British manufactures – textiles especially going to Europe in exchange for grain is disrupted
- The prices of imports over exports for these commodities rise
- a consequence is the search for new sources
- British trade diverts, in particular across the Atlantic
  - E.g. move toward North American as opposed to Baltic timber
  - Between 1805 and 1812 New Brunswick timber exports go from 5000 to 100,000 tons
  - These divergences persist after the war

Part II

9. Commodities

- We begin with the movement of goods, and I want to start by returning to a graph I showed you when discussing the great depression of the 19th century
- The movement of goods in the 19th century was first and foremost a story of *market integration*
  - What I mean by market integration is that if goods were cheaper in some market rather than another, the rise of the transport links we have discussed facilitated the movement of goods from where they were cheap to where they were expensive
  - Nowhere was this more important that in the global market for wheat.
- The graph, drawn from the book Globalization and History by O'Rourke and Williamson, shows the percent by which the British price of grain exceeded the US price
  - It shows this both for the price in New York of Grain, and for the price in Chicago
  - It is telling us about the growth in the global integration of the wheat market: as the US built railroads tying Chicago to New York, and as steamships got faster and larger linking New York to london, the differences in cost between grain in Britain and grain in the US got smaller and smaller
- The effects of this kind of commodity market price integration were two-fold
  - On the one hand, this resulted in real gains to British consumers, who paid less for their bread
  - But on the other, this damaged British – and more broadly European – agricultural producers

10. British merchant fleet

- The growth of international trade was particularly important to Britain in several senses. First, Britain benefitted from the trade itself,
  - as the largest merchant marine its ships carried these goods, and this industry was important to Britain

11. Britain and Trade

- More broadly, trade was crucial to the British economic engine.
- Throughout the 19th century, the share of British wealth derived from trade was increasing, and this was particularly true for Britains manufacturing sectors
- We can see in the graph shown on the screen that the share of trade in the manufacturing sector had risen to roughly 50% in 1831
- As a share of overall GDP, in 1851 trade accounted for nearly 20% of total British GDP.
  - This level of trade integration – the importance of trade to the overall economic engine, was far higher than had ever previously been the case

12. Capital

- Goods were not the only thing that moved in the 19th century international economic order, it was also characterized by an unusual degree of capital movements
- The 'export of capital' means the movement of money from one country to another, usually in the form of investment.
- The 19th century witnessed this phenomenon at an unprecedented scale:
  - British savers chose to place their savings in a bewildering array of investments from South African diamond mines to Argentinian government bonds

- The degree to which Britain invested abroad was anomolous even by the standards of the time
  - British savers in particular favored foreign sovereign debt and railroads, much more so than their French or German compatriots
  - This reflected in no small measure the British empire – both formal and informal – which provided greater surety of investment
  - Investors in Australian sovereign debt could be more assured that London would stand behind the credit-worthiness of their investment – insulating them from default. The effects of this can be seen in the lower costs to borrow experienced by British colonies.
- The export of capital was so large that it prompted worried debate in Britain
  - Critics, both contemporary and subsequent, worried that this enormous flow of savings abroad proved detrimental to British domestic industry. That Britain chose to finance foreign railroads rather than local ingenuity and that this decision was damaging to British growth prospects in the long-run.
  - This argument has been criticised by contemporary historians it should be noted.

13. The portfolio

- Part of the concern 19th century critics evinced over this transfer of capital abroad was a reflection of the small sliver of investment that flowed towards domestic industry.
- If we look at *what* investors put their money into, we can see that it was predominantly flowing into Bonds of Foreign governments and colonies, and railroads domestically and abroad.
  - Colonies in particular saw inflows of investment in railroad construction – so-called social overhead capital – thus financing the infrastructure that would enable the export of the commodities that we were just discussing.

14. The gold standard

- The significant capital flows both pressed for and facilitated institutional structures that made cross border investment easier. Most prominantly among these was adherence to a system of fixed exchange rates underpinned by a single commodity i.e. the Gold standard
  - Investment flows helped to propigate the gold standard from Britain around the world:
    * First, Britain's financial pre-eminence helps to push bimetallic countries like the US, France and Germany to abandon silver and move to an exclusively gold monetary regime
    * And other countries around the world choose to fix their currencies to sterling.
  - The monetary regime had political ramifications. The widespread use of the gold standard accompanied significant deflation in the later 19th century
    * As we will note later, political elites often managed to maintain monetary stability at the cost of unemployment or wages
    * Scholars such as Eichengreen have argued that this 19th century monetary system was only really possible in a context in which the political claims of workers whose livelihoods were threatened by globalization could be in part ignored

15. The movement of people

- The unchecked movement of goods and money was matched by a parallel movement of people.
- The 19th century movement of Europeans towards the Americas was unprecedented as a *voluntary* migration
  - The forced importation of African slaves to the Americas had been on a similarly unprecedented scale
  - It was not until the 1880s that cumulative European unforced migration exceeded cumulative forced african migration to the americas
- Between 1820 and 1920 about 60 million europeans moved to the 'new world'
- In contrast to the present, the movement of people was relatively less restricted.
- These movements were of course helped by the same falling costs structures that underpinned the movement of goods
  - It became cheaper to move abroad,
  - It became cheaper for relatives to send information back about job opportunities abroad,

- and it became cheaper for migrants to remit money through the apparatus of international finance, either to help family at home or to help finance the emigration of a relative

16. The extent of 19th c. global migration

- McKeown discusses several migration 'systems' that during the 19th and early 20th centuries saw mass movement of migrants driven by economic pressures generated by the integration of the 19th century economy
- The Euro-American translatlantic migration was of course the most directly relevant to the British experience
  - But British activities globally in supporting changing economic patterns are pushing other patterns of migration, e.g. migrants from India and southern China settling in Southeast Asia
  - Much like the transatlantic migrations, these are largely individuals responding to economic pressures and wage differentials between sending and receiving destinations
  - Thus, in the trans-atlantic case, wages were significantly higher in the new world than in Britain, although the gap here fell across the 19th century in part in response to the movement of people and the flow of traded goods.

17. Multiple migration systems

- It is worth underlying that the flows here are complex and not simply 'The irish going to Boston' as, for instance, I would have learned the story in my American high school
  - There are multiple patterns of regionalized migration flows.
  - But what all these systems share is an underlying facilitation by the rise of the greater integration of the global economy which made it easier to learn about migratory opportunities abroad, to move people abroad at reasonable costs, to remit money, and that forced adjustment as economic activity became increasingly specialised.

18. When were migration flows

- Finally, the patterns of migration across the atlantic tracks closely a periodization that is important to Britain's international economic relations in the 19th century, namely that intensity grows over the 19th century and is ruptured by WWI.
  - But this pattern is not uniformly true

Part III

19. Was there deglobalization?

- We have already prefigured the answer here at several points. In short form, yes there certainly was
  - The cost of shipping rising with the onset of WWI
  - Commodity prices diverge as trading costs rise and as states intervene more in the allocation of economic resources as the mobilize for war
  - In the bid to pay for the war many countries, including Britain, pause their adherence to the gold standard
    * Moreover, Britain begins to canabalize the assets its citizens hold abroad in order to pay for war material bought (predominantly) off the Americans
    * The British portfolio abroad is thus seriously damaged
  - Migration across the atlantic is abruptly truncated

20. What accounts for the forces of deglobalization?

- The globalized economy of the 19th century encouraged the rapid movement of goods, money and people
- Several historians have theorized how in fact these processes of global economic integration could have proved their own undoing:
  - How globalization could generate backlashes of various sorts that resulted in countries turning inwards
  - James for instance, suggests several mechanisms
    1. That the financial flows were destabilizing

   2. That the institutions built to allow free movement of capital and goods (and people) were socially disruptive and made it impossible for governments to protect their citizens from global economic forces
   3. And that in a bid to respond to these forces governments constructed national institutions aimed at some insulation from the global economy
- The view that globalization can beget deglobalization is fairly widespread, e.g. here a well-known political scientist pinpoints the inevitability of 'dissatisfaction with global capitalism'
  - What is meant here are processes like the one we started with: US civil war, by disrupting cotton production, raised the costs of Lancashire textile manufacturers, which caused them to lay off large numbers of British workers.

21. Financial instability

- We might start with James point about speculative finance
- The slew of financial crises across the 19th century underpin this point
  - The cartoon on the right is showing the Bank of England – shown here as the 'Old Lady of Threadneedle street' as she was often called – bailing out a bunch of banks and money market funds that had blown up during the Barings crisis of 1890 when they bet rashly on property schemes and sovereign debt in Argentina
  - We are all surely familiar with the crisis in 2008 in which weak lending standards to US mortgage borrowers, and some predictable subsequent defaults, could propogate panic globally resulting in e.g. bank failures in Great Britain

22. Distributional consequences

- We have assayed in general terms the fact that the 19th century system often resulted in governments proving unwilling or unable to respond to the needs of their domestic constituents
- This is often presented in terms of what is called the 'trilemma':
  - Governments are usually able to pick 2 out of the following 3 options:
    * Fix the exchange rate
    * Allow capital mobility
    * Independent monetary policy
      · For instance, if there is a big crisis and the Bank of England wanted to cut interest rates to promote economic activity and reduce unemployment they would have a hard time doing so as capital would flow out of the country and this would jeopardize Britain's ability to maintain the gold standard
  - The table is from Daunton, and we can see that throughout the nineteenth century policymaking involved commiting to institutions that made it easy to invest internationally, and that insulated wealth holders from concerns that changing values of currencies would effect them
    * It is perhaps the preferred policy mix of the rentier
    * But it made them unable to respond to problems like unemployment the way a modern central bank might
    * This becomes painfully apparent after WWI as British suffrage expands, union membership expands and unemployment rises
      · Ultimately, Britain will abandon the gold standard and the final Bretton woods settlement will block free capital movements
      · Incidentally, we mostly now cope with this problem by allowing exchange rates to adjust

23. Economic globalization and WWI

- Despite the factors surveyed above, it is temping sometimes to think that the machine of economic globalization would have just ground on were it not for the sudden and discontinuous rupture of WWI
  - Perhaps it would but some scholars have provocatively suggested that we might even look for the origins of WWI in the economic system of the 19th c.
- In fact, scholars such as Adam Tooze and Ted Fertik have suggested it is more sensible to focus on how this period of intensive global exchange generated contradictions that tended to unravel the process of globalization

- For one, there were many ‘losers’ of globalization, including European agriculture
- European countries had to negotiate political settlements to cope with the influx of cheap agriculture products. Many, such as france, turned towards agricultural protection.
- The gold standard also demanded that governments could ignore demands of labor to prevent declines in wages
  * This became increasingly less tenable as Britain became more democratically responsive and unions grew in power
- Finally, Tooze and Fertik have noted that the spread of industrialization was itself destabilizing.
  * While Russia was less of a threat at the beginning of the 19th century, its industrialization across the period became increasingly destabilizing to the political balance
  * Japan’s industrialization can be thought of as similarly destabilizing for the balance of power in Asia
  * Christopher Clark has pointed in particular to German fears of Russia’s growing industrial might as part of why it might have preferred war in 1914 rather than waiting.
  * Thus, in various ways, we might think of globalization as unleashing forces of reaction: certainly writing this in quarantine as the world shelters from a pandemic that spreads rapidly through international travel, it is easy to dwell on the ‘risks’ of globalization.
- In that vein, we should not overlook the broader benefit of the 19th century: the global economic system that emerged seemed to deliver consistent improvement in standards of living, and relatively less bloodshed, at least judged against the relatively short yardstick of the 18th or early-20th centuries.