An Unequal Equalization: An Investigation into Why the First Age of Globalization Took Place Through Understanding the Rates of Profit

Kabeer Bora*

Abstract

The period from 1870 to the outbreak of the First World War is commonly referred to as the First Age of Globalization. This era witnessed an unprecedented expansion in trade, capital flows, and labor migration. This study situates this phase within a Marxian Economics framework, using the rate of profit as a key variable. I investigate how globalization influenced the rate of profit during this period. I use two methods to test this, a standard fixed effects model and an instrumental variable approach to account the inherent endogeneity of our variable of interest - trade openness, measured as exports + imports over GDP. Using the instrument proposed by Felbermayr and Gröschl (2013) of leveraging natural disasters to estimate the effect of trade openness on the rate of profit, I find that trade openness is statistically significant and positively affects the rate of profit. Additionally, I find that the export of capital further raises the rate of profit, as capital relocates to more profitable regions. At the same time, capital mobility contributes to a convergence in rates of profit, as evidenced by a decline in their standard deviation over time. These findings highlight the dual forces of globalization: while it enhances profitability, it also facilitates equalization across regions.

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*University of Missouri - Kansas City, Email: kabeerbora@umkc.edu