1

Introduction: the spread of and resistance to global capitalism

KEVIN H. O'ROURKE AND JEFFREY G. WILLIAMSON

This second volume of the *Cambridge History of Capitalism* deals with capitalism's evolution within Western Europe and its offshoots, and its spread to the rest of the world after 1848. Throughout, capitalism increased in complexity as it overcame resistance and setbacks. Given that global capitalism is currently under severe stress and that world economic growth appears to be slowing down, it is easy to be distracted by these problems of the present. Indeed, the last chapter of this volume will focus mainly on those problems as they relate to the future. This introduction, however, will resist this presentist temptation and instead use the past to organize our thinking. Here we trace out capitalism's global historical road map since 1848 so that the details in the chapters that follow can be placed in context.

Capitalism and global capitalism: a roadmap

The spread of global capitalism has two dimensions, and they can be distinguished by means of an analogy that will appear again towards the end of the chapter. The gold standard was, strictly speaking, a *domestic* institution, linking a country's money supply to its gold reserves. The gold standard only became an *international* exchange rate system once several countries had independently decided to adopt the gold standard, and to allow free trade in gold. Similarly, the emergence of global capitalism as an *international economic system* required not only that the institutions of capitalism be introduced in the economies of all global participants, but also that those participants allowed a wide range of economic interactions to take place between them. If socialism had succeeded in embracing the planet, we would have had an international system that was certainly global, but not capitalist. And it has not been uncommon for capitalist economies to shield themselves from the global economy. A global capitalist system requires both the *domestic* capitalist institutions and the *international* interactions.

As long as individual nations retain control of their own destinies, it is unlikely that we will ever have a truly global capitalist system, certainly in our lifetimes. Nevertheless, it surely makes more sense to speak of a global capitalist system today than at any previous point in human history. It is also true that the domestic and the international dimensions of the transition to our twenty-first-century global capitalism have never been unidirectional: along the way, there have been many explosions of political backlash against globalization, and of rejections of the basic institutions of free markets (Chapter 12 by Jeffry Frieden and Ronald Rogowski). Some of these explosions arose endogenously, often as a response to some unequal distributional implication of capitalism (Chapter 13 by Michael Huberman; Chapter 14 by Peter Lindert). Others arose as a result of major shocks to the international system, some of which were endogenous and due to flaws in early capitalist institutions and some of which were arguably exogenous. Two notable examples of the latter were World War I and World War II, although this volume will explore ways in which these conflicts may have been produced by key features of the early and middle twentieth-century international economy (Chapter 11 by Mark Harrison). As Karl Marx suggested, other shocks may have been endogenously generated by the "inherent" instability of capitalism itself – most notably the Great Depression, or, more recently, the Great Recession. A key question is how different countries responded to these shared global shocks. After the Great Depression and World War II, for example, some countries reformed their financial systems, slowly opened their economies again to international trade (if not international capital flows), and constructed Grand Bargains between labor, capital, and government: this was the case in Western Europe, which experienced an economic growth miracle over the quarter-century from 1950 to 1973. Other countries, like many in Latin America, developed much more inward-looking, anti-global, and anti-market (import substituting industrialization, or ISI) policies during the same period, policies which were only abandoned in the 1980s or 1990s. Since the permanent abandonment in 1971–1973 of fixed exchange rates as an anchor for international monetary arrangements, a new surge of capitalism occurred within the context of renewed globalization. This sequence of events gives each chapter that follows three major episodes to consider: the nineteenth-century aftermath of the industrial revolution; the mid twentieth-century retreat from global capitalism; and the gradual resumption of global capitalism's spread and deepening after World War II.

The aftermath of the industrial revolution

The so-called long nineteenth century was largely defined by the industrial revolution. From the point of view of the development of global capitalism, the most important consequences were the following. First, there appeared the *Great Divergence* in per capita incomes between rich capitalist leaders and poor pre-capitalist followers. This Great Divergence went hand in hand with a decisive shift in military power that enabled the Western economies to dominate large areas of the globe via formal and informal imperialism (Chapter 10 by Gareth Austin). Imperialism facilitated the spread of a variety of legal systems (Chapter 5 by Ron Harris), corporations and other firm organizations (Chapter 6 by Geoffrey Jones; Chapter 7 by Randall Morck and Bernard Yeung), and financial institutions (Chapter 8 by Ranald Michie), as well as international economic integration. Second, the industrial revolution produced the *Great Specialization*, which gave the hegemonic power, the United Kingdom, a strong interest in an open international trading system, since that island economy relied so heavily on the exchange of manufactured exports for food and raw material imports from the poor periphery (Findlay and O'Rourke 2007; Williamson 2011). Third, the new industrial (and agricultural) technologies spread from the United Kingdom to the rest of northwestern Europe and the United States, and, with a lag, further afield to the European periphery, Latin America, and Asia (Chapter 2 by Robert Allen; Chapter 3 by Giovanni Federico; Chapter 4 by Kristine Bruland and David Mowrey). Fourth, new transportation technologies and the telegraph were both crucial in fostering trade and forging global commodity markets. Fifth, domestic money markets became more sophisticated, and financial capital flowed across borders in increasing waves, forming a world capital market (Chapter 9 by Harold James). Sixth, the fall in steerage costs, the rise in remittances to those who hadn't yet left for high-wage host countries, and the erosion of poverty traps in low-wage sending regions, all led to the emergence of mass migration. This mass migration fostered something like a gradually integrating Atlantic labor market. Finally, the industrial revolution was followed by the slow spread of democracy across the core countries, a process that would have major economic implications for twentieth-century global capitalism.

Domestic capitalist institutions

Most chapters in this volume have a great deal to say about the small sample of countries in which domestic capitalist institutions were relatively well-developed in 1848, as Volume 1 has shown so well. Almost all of these were in Western Europe and in their overseas offshoots, but very few were in the rest of the world. The chapters in this volume talk about both domestic capitalist institutional deepening and widening. By deepening, we mean the further development of capitalist institutions in the core countries during the late nineteenth century: for example, the continued development of increasingly sophisticated financial markets in countries like the United Kingdom and the United States; or the emergence of the modern corporate firm in the United States following the spread of the railroad and telegraph. By widening, we mean that more countries joined the capitalist club: for example, Japan's quick absorption of capitalist institutions during the Meiji and early Taisho periods, or the efforts of leading Latin American industrializers – like Mexico, Argentina, and Brazil – to do the same during their *belle époque*, or even the emergence of Asian centers of capitalism like Shanghai and Bombay.

Global interactions

The increased globalization across the nineteenth century was due to a combination of factors, especially the new transportation and information technologies referred to above. On the other hand, these technologies were able to have the impact they did because of favorable geopolitical conditions: the end of mercantilist competition in Western Europe, replaced by British dominance; the end of the great mercantilist trading monopolies, replaced by far more competitive conditions; the achievement of a durable peace in 1815 that made a century of world trade possible without disruptive intra-European conflict; and the rise of imperialism, which imposed free trade both on formal colonies (as opposed to the self-governing Dominions, which typically chose to erect substantial tariff barriers) and on only nominally independent countries such as China, Egypt, Japan, Siam, and the Ottoman empire – all forced to go open by gunboat diplomacy. In addition, Britain offered the military muscle to police the process (*pax Britannica*), just as America does today (*pax Americana*).

The international globalization of capitalism

What made it the first global century? Trade booms[1]

Four things happened to the world economy between the end of the Napoleonic Wars and World War I, four things that had never happened before and which would not happen again until after World War II. First, the richest and fastest-growing European economies went open, removing

1 This section relies heavily on O'Rourke and Williamson 1999; Findlay and O'Rourke 2007; and Williamson 2011.

long-standing mercantilist policies, lowering tariffs, and removing non-tariff barriers to trade. Their colonies in Africa and Asia did the same, and many others were forced by gunboat diplomacy to follow suit. In addition, much of the world integrated their currencies by adopting the gold standard or other international currency arrangements, lowering exchange risk. Thus, liberal commercial and exchange rate policy were one good reason for trade to boom. Second, led by new steam technologies, the world underwent a pro-trade transport revolution. As the cost of trade fell dramatically, the ancient barrier of distance was broken. The revolution was given added impetus by the appearance of the telegraph, another pro-trade technology that lowered uncertainty about prices in distant markets. Third, economic growth rose steeply as it was carried by industrial revolutions in Europe and its offshoots. As a consequence, the demand for everything soared, especially imports of intermediate inputs into manufacturing, fuel, and luxury foodstuffs. Fourth, the world was a much more peaceful place than previously. Frequent European wars in the past had impeded trade via embargoes, privateering, the draft of merchant marine bottoms for naval use, and the creation of market uncertainty. In the nineteenth century, *pax Britannica* reigned, creating a trade-stimulating peace.

After the wars with the French were over, Britain, the dominant hegemon, started dismantling its trade barriers. A series of liberal reforms in the 1820s and 1830s were followed by Robert Peel's momentous decision to abolish the so-called Corn Laws in 1846, which moved the United Kingdom unilaterally to free trade. This free trade movement did not happen as a one shot political event. Instead, it proceeded in four major steps over thirty years: between 1815 and 1827, the *ad valorem* tariff equivalent was about 70 percent; between 1828 and 1841, it dropped to 50 percent; between 1842 and 1845, it fell farther to 19 percent; and, finally, in 1846 Britain adopted free trade. Thus, Europe's biggest economy opened its markets to all comers. The rest of Western Europe followed Britain's liberal lead, and average tariffs on the continent fell throughout the 1850s and 1860s, accelerated by the presence of most-favored-nation clauses in their treaties.

Things changed in the late 1870s and 1880s, when cheap New World and Russian grain began to affect European markets, something that domestic landed interests did not like. The resulting late nineteenth-century European tariff backlash had little impact on exporters in the poor periphery, whose primary products did not compete with producers in European markets (except in the case of cane sugar, which competed with beet sugar). But the backlash was even more powerful in much of East Asia and Latin America, regions which were not at all interested in free trade. The English-speaking New World offshoots and the young Latin American republics had the highest tariffs in the world, protecting their infant industries and supplying revenue for the state. East Asia was also less than enthusiastic about free trade, but the naval muscle of the industrial leaders made it comply. Equally important for the poor periphery was the fact that European markets were open to their exports. Furthermore, the European leaders, their offshoots, and their colonies bound themselves more closely together by integrating currencies via the gold standard and other currency unions, adding more pro-trade policies to the mix.

Until well into the nineteenth century, overseas trade was too costly to allow much long-distance trade in bulky primary products. Thus, most food-stuffs, most industrial intermediate goods, and most fuels were not traded long distance on a regular basis. While wheat might be transported across the Atlantic in years of European scarcity, regular, large-scale, long-distance trade involved commodities with a high value-to-weight ratio: precious metals, spices, silk, porcelain and other consumption goods of the rich, slaves, and later 'colonial' commodities such as sugar, tobacco, or cotton, which could only be grown in Europe with difficulty, if at all. Things changed quickly in the nineteenth century as a transport revolution over both water and land took place. Investment in river and harbor improvements increased briskly in the European core following the French Wars. In the United States, completion of the Erie Canal in 1825 reduced the cost of transport between Buffalo and New York by 85 percent. These transportation improvements began to destroy regional barriers to internal trade, and integrated national goods markets began to emerge within the United States, within Britain, within the German Zollverein, and within other countries on the continent.

Steamships made the most important contribution to nineteenth-century shipping technology. In the first half of the century, they were mainly used on important rivers, the Great Lakes, the Baltic, the Mediterranean, and other inland seas. A regular trans-Atlantic steam service was inaugurated in 1838, but until 1860 steamers mainly carried high-value goods similar to those carried by airplanes today, like passengers, mail, and gourmet food. The other major nineteenth-century transportation development was, of course, the railroad. The growth in railway mileage during the second half of the nineteenth century was phenomenal, particularly in the United States, where it played a major role in creating a truly national market. By the 1850s, every major port in the northwest of Europe was within relatively inexpensive reach of every small town in its rural hinterland. Atlantic freight rates dropped by almost 55 percent in real terms between the 1830s and 1850s. British freights dealing with the Liverpool and London trade fell by about 70 percent in the half-century after 1840. Furthermore, since the impact of railroads was probably even more important than transport improvements on ocean shipping, these big percentage point falls almost certainly understate the total decline in transport costs.

The transport revolution was not limited to the Atlantic economy. The decline in freight rates was just as dramatic on routes involving Black Sea and eastern Mediterranean ports. Over the fifty years after 1820, freight rates fell by 51 percent along routes connecting Odessa with England. And after 1870, the railroads had a big impact in Eurasia and Asia too: they tied the Ukraine interior wheat lands with Odessa, the Black Sea, and thus with world markets. The same was true of the American Midwest and the Latin American interior.

In many parts of the periphery, railroads were even more important than they were in the core. Where regions were fragmented by rough topography, poorly endowed with inland rivers, and isolated from coastlines, railroads had a spectacular market-integrating impact – in Argentina, the Brazilian south-east, Mexico, Spain, Turkey, and India. Railroads helped unlock the periphery's previously isolated interior, integrating it with world markets.

Late-twentieth-century growth rates by the East Asian tigers and then China have set a modern standard of 'growth miracles' hard to beat, making impressive growth spurts in the past look pretty modest. But the first growth miracle was unique by the standards of its time, carried by the industrial revolutions in Western Europe and its English-speaking offshoots: over the first global century up to 1913, growth rates increased by almost four times. Furthermore, this increase is understated to the extent that even these rich countries were largely populated by farms and families that were self-sufficient, and often barely connected with markets. Thus, the upward jump in the growth rate of the 'surplus' above subsistence must have been much bigger than four times. And it was that surplus which drove trade. Indeed, the world share of trade in GDP rose eight times between 1820 and 1913.

Finally, many of the exports from the poor periphery were essential intermediates for manufacturing. The canonical example is raw cotton to produce cotton textiles, but there are many more examples, like copper, hemp, hides, jute, nitrates, rubber, silk, tin, wool, and woods of all types. Trade in these intermediates and foodstuffs – what we call commodities today – were driven by the growth of industrial output in the rich core, which was much faster than the growth in total GDP. The world demand for commodities pulled the backward periphery into the world economy and forced it to learn about capitalist institutions.

The world trade boom across the first global century was impressive. In the six decades before 1913, it grew about 3.8 percent per annum, well above the growth rate in core GDP. Thus, the world trade share in GDP rose. The fact that world trade shares were rising steeply suggests that income growth, industrialization, transport revolutions, communication improvements, and more liberal policy were all playing a mutually supporting role. Which mattered most? The answer depends on whether the focus is on market integration, trade/GDP shares, or trade itself. If the focus is on trade, then income growth mattered most – which itself was driven by the deepening and widening of capitalism. If instead the focus is on trade shares in GDP and market integration, then falling trade barriers mattered most – which were lowered in part by pro-global policies initiated by the leading capitalist countries.

What made it the first global century? Mass migration[2]

During the few decades between about 1820 and the mid nineteenth century, global migrations changed dramatically. Emigration policies changed, from restricting outflows before (to keep military recruits and cheap labor home), to adopting *laissez-faire* policies thereafter. Magnitudes changed, long-distance world migrations soaring to levels never seen before 1848. Migrant composition changed. Most moved under contract or coercion before, while most moved unassisted and free thereafter. Most who moved free moved in families and were much less poor before, while most who moved as individuals were poorer thereafter. And while return migration was very uncommon before, it became increasingly common thereafter.

How and when did the European overseas countries, and North America in particular, switch from regions with modest to huge numbers of foreign-born? In the first three decades after 1846, European emigration averaged about 300,000 per annum; in the next two decades it more than doubled; and after the turn of the century it rose to over a million per annum. European emigrant sources also changed dramatically. In the first half of the century, the dominant emigration stream was from the British Isles, followed by Germany. A rising tide of Scandinavian and other northwest European emigrants joined these streams by mid century. Southern and eastern Europeans followed suit in the 1880s. This new emigrant stream accounted for most of the rising emigrant totals in the late nineteenth century. It came first from Italy and parts of Austria-Hungary, but from the 1890s onwards it swelled to include Poland, Russia, the Balkans, Spain, and Portugal.

2 This section draws heavily on Hatton and Williamson 2008: chap. 2.

The overwhelming majority of the European emigrants had the United States as their destination, but there were significant flows to South America after the mid 1880s, led by Argentina and Brazil, and to Canada after the turn of the century. A small but persistent stream also linked the United Kingdom to Australia, New Zealand, and South Africa. Still, the United States dominated: between 1846 and 1850, the years of the great Irish famine, the United States absorbed 81 percent of all emigration to the Americas; between 1906 and 1910, the years of peak migration before World War I, the United States still absorbed 64 percent of all emigration to the Americas, the main competitor being Argentina.

Cross-border migrations also took place *within* Europe. The earliest example is Irish migration into Britain between 1781 and 1851, by the end of which Irish-born accounted for almost a tenth of the population of British cities. A second example is the fact that more than half of all Italian emigrants in the 1890s went to European destinations, chiefly France and Germany. A third example is the movement from eastern Europe into Germany, a pattern repeated even today. These statistics almost always refer to gross rather than net migrations. The distinction is unimportant for most of the nineteenth century, since the cost of return migration was much too high. However, return migration became more important as time wore on. Thus, US authorities estimated that between 1890 and 1914 return migration had risen to 30 percent of the gross inflow, and the return rate was much higher for the decade before World War I (Bandiera, Rasul, and Viarengo 2012). Between 1857 and 1924, return migration from Argentina was 47 percent of the gross inflow. The high return migration rate represented a growing trend towards temporary, often seasonal, migration. And what was true of European emigration was also true of cross-border migration within Europe.

Since large countries send out and receive more migrants than small countries, we need some device to standardize the migration experience to judge its impact on labor markets. Thus, we want to measure the number who emigrate relative to all those in the sending country, and the number who immigrate relative to all those in the host country. The simplest approach is to divide the migrant flow by the sending or receiving country population or labor force. Rates exceeding 50 per thousand per decade were common for Britain, Ireland, and Norway throughout the late nineteenth century, and Italy, Portugal, and Spain reached those levels by the end of the century. Sweden and Finland recorded 50 per thousand rates in only one decade, but even the 10–50 per thousand rates achieved by the rest are very high by modern standards.

New World immigration rates were even larger than European emigration rates, an inevitable arithmetic consequence of the fact that the labor-abundant sending populations were bigger than the labor-scarce receiving populations. The immigration rates were high everywhere shortly before World War I, and high rates imply significant economic effects on sending and receiving labor markets. This is especially so when we recognize that migrations tended to self-select those who had most to gain from the move, namely young adult males. Thus, the migrants had far higher labor participation rates than either the populations they left behind or the ones they joined. It follows that the *labor* migration rates were even higher than the already-high population migration rates.

Undocumented migrants are not an issue when we look at the foreign-born reported in census documents. Just prior to World War I, the highest foreign-born shares were around 30 percent for Argentina and New Zealand, while they were about 15 percent for the biggest immigrant economy, the United States. These proportions are considerably higher than today.

The flows from labor surplus to labor-scarce parts of the periphery were often comparable to those recorded by the European mass migrations. About 50 million people emigrated from labor-abundant India and south China to labor-scarce Burma, Ceylon, Southeast Asia, the Indian Ocean islands, East Africa, South Africa, the Pacific islands, Queensland, Manchuria, the Caribbean, and South America. These migrants satisfied the booming labor force requirements in the tropical plantations and estates producing primary products. They also worked on the docks, and in warehouses and mills engaged in overseas trade. Most of these migrants were contract workers: their steerage was paid, and their contract was for a fixed set of years. This arrangement was effective for those from very poor families in India and China, which could not pay for their children's moves. In this sense, it was very much like eighteenth-century indentured servitude in the Americas.

Why the big boom in mass migration before World War I? First, the numbers "at risk" rose, as European demographic transitions produced lower child mortality and, with a 15- to 20-year lag, a rise in young adult population shares. Since young adults are always the most mobile, these demographic transitions pushed up European emigration, much like it did in the Third World after the 1950s. But there were also other positive forces at work. Most moved to escape poverty, and they did so using family resources, without government assistance, restriction or, in more modern terminology, special *guestworker* permission. As transportation and communication improved, the costs and uncertainty of migration fell, and overseas migration came within reach of an increasing