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978-1-107-03015-2 - The Foundations of Worldwide Economic Integration: Power, Institutions, and Global Markets, 1850–1930

Edited by Christof Dejung and Niels P. Petersson

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The Foundations of Worldwide Economic Integration

Power, Institutions, and Global Markets, 1850–1930

The chapters in this volume discuss the worldwide economic integration between 1850 and 1930, challenging the popular description of the period after 1918 as one of mere deglobalisation. The authors posit that markets were not only places of material exchange but also socially structured entities, shaped by the agency of individual actors and by complex structures of political and economic power. Economic transactions were supported by an array of different institutions, ranging from formalized regulations to informal relations of personal trust. They argue that these networks were strong enough to prosper even through and after World War I, in a political climate often hostile to foreign trade. *The Foundations of Worldwide Economic Integration* shows that institutionalism altered its shape in the face of circumstances that increasingly challenged international trade. By presenting case studies from various countries, this book offers a fresh perspective on crucial periods of economic globalisation.

Christof Dejung is Senior Lecturer and Researcher in the Department of History and Sociology at the University of Konstanz, Germany.

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The Foundations of Worldwide Economic Integration

*Power, Institutions, and Global Markets,
1850–1930*

Edited by

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Harold James is Professor of History and International Affairs in the Woodrow Wilson School, Princeton University. His most recent works are *The End of Globalization: Lessons from the Great Depression* (Cambridge, MA, 2001, which is also available in Chinese, German, Greek, Japanese, Korean and Spanish); *Europe Reborn: A History 1914–2000* (Harlow, 2003); and *The Roman Predicament: How the Rules of International Order Create the Politics of Empire* (Princeton, 2006). In 2004 he was awarded the Helmut Schmid Prize for Economic History, and in 2005 the Ludwig Erhard Prize for writing about economics. Professor James is currently working on a book on the history of the corporation in modern Europe, a study of the 1929 crash and a study of the history of European monetary integration.

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Since then his research interests have focussed on the architecture and crisis of markets as seen from the perspective of their microregulators: judges, arbiters and bureaucrats. This covers, for instance, the case of IMF policies vis-à-vis sovereign debts; private bankruptcies in nineteenth-century France; or the development of early industrial policy in eighteenth-century France.

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Foreword

Harold James

Describing the very dynamic global trade of the second half of the nineteenth century and the early twentieth century has become a standard part of the repertoire of economic historians. I like to think in terms of globalisation cycles, with long periods of increased interchange of goods and flows of people, capital and ideas. But then something happens, and globalisation is interrupted. Many people feel that there has been too much interaction, and they draw back from the global setting and look instead for protected areas in which they can be safe from global threat and global devastation. Politics looks for national rather than international solutions to pressing problems and concerns, and international cooperation becomes tense and difficult, if not impossible. At each stage in the globalisation cycle, we tend to extrapolate and to think that this particular phase will last forever: whether it is the confident upswing or the stagnation and anger of the downward movement of the cycle.

The breakdown of globalisation has often been studied, and it is usually seen as a consequence of the interplay of policy responses that seek to limit the extent of international connectedness. By contrast, many people think of the integration or upswing phases as happening automatically, as a result simply of the unplanned magic of myriad market interactions.

But are the ups and downs of globalisation as clearly separable as such a model would suggest? The reactions that bring about the downturn have their origins in the upswing phase. Globalisation is not only a process that occurs somewhere out there – in an objective and measurable world of trade and money. It also happens in everyone's minds, and that part of globalisation is often more difficult to manage. To understand both the process and our reactions to it, we need a historical sense. If we want to

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understand why it is sometimes threatened, we need to know what makes it work, what drives it. This is what this fine book provides.

The chapters collected here show how much the establishment of globalisation follows from choices, plans and strategies. Integration does not in fact simply come out of nothing. Complex transactions and relations in a globalised society and economy require an element of certainty that is provided by a simple capacity to make equivalences.

The most obvious form of this security is the stability that is provided by a secure monetary standard, and globalisation upswings have always had a widely recognized and shared international measure of value. The late nineteenth century was characterized by Charles de Gaulle in retrospect as the *époque du trois pour cent*, the absolute confidence that government and other high-quality bonds would produce a stable and predictable return of 3 per cent. The foundational belief is that market prices send an intelligible signal, and it has political implications. Markets limit the capacity of governments to behave badly. Yet markets are also not purely automatic mechanisms, but depend on a host of conventions and institutions. What ideas and what interests drove the participants, and what was the relationship between ideas and interests? This is the question that already fascinated Max Weber at the height of the late nineteenth-century era of globalisation.

The confidence that was at the core of the globalisation belief in universal connectedness led many people to extend credit and take larger and larger risks. In short, the expectations aroused by globalisation set off credit booms, and the downswing of deglobalisation came with the disappointment of bubbly expectations and then with financial collapse. Raised expectations produced the sense that anything and everything was possible; in other words, euphoria ensued that lacked rational foundations. The power of markets in this case meant that alternative disciplinary methods, in the form of state regulation or in the imposition of a complex nonstate system of authority in a corporation, also began to be eroded. There was then a universal questioning of every type of value.

One of the most fascinating problems occurs when trying to determine how the trust or confidence arises that allows people to undertake risky transactions over long geographical distances, often across multiple political and judicial settings. It may stem from more information about business partners, made available through new organisations, through highly complex business corporations, credit agencies or official institutions that transmit and translate market signals into usable or reliable

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information. Weber gave an answer in terms of religious ideas and religious communities, in particular the gathered Protestant congregations of Northern Europe and North America. How do all of these institutional ways of managing space and time reduce transaction costs? How far do public authorities shape the institutional possibilities, and what kinds of cooperation are possible among states that see themselves in competition with each other? What are states doing when they manage their relations with each other and they work on international agreements?

The chapters in this collection also raise the intriguing question of how separable the globalisation and deglobalisation phases are from each other. Can we be in a period of deglobalisation while imagining that the world is ever more globalised? Do crises also produce countervailing forces? Finally, one of the greatest paradoxes is that it is military conflict that usually ends globalisation cycles and unleashes the backlash. The globalised world of the eighteenth century broke apart with the wars of the French Revolution and Napoleon, and the First World War gave a bad shock to the assumptions of early twentieth-century globalisers. Yet military activity and the imperialism of which it is an expression are also social processes that are transnational and globalised. The authors in this volume rightly do not see the First World War and its aftermath as simply a break in globalisation but rather as a turning of its direction and even as an element of continuity. Violence, as well as economic interaction, is contagious and spills over from country to country and from continent to continent.