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BLAB

HANDOUTS

ECONOMIC HISTORY

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It is a useful tool for studying the subject, but does not guarantee preparation as exhaustive and complete as the material recommended by the University.





ECONOMICS HISTORY

1 PREINDUSTRIAL ECONOMIES

Until 10-12k years ago: agrarian societies did not exist, there were hunter gatherers

Then there was the **first agricultural revolution**, people settled down, built villages and started cultivating the land. First, acceleration in population growth. By the year 1 population was 250 Million from 6M 10k years ago

Non classical theory: the shift to agriculture was forced by demographic pressure Living conditions worsened (worse diet, more diseases, more work, more inequality)

Benefits: more complex, more coordination of labor, diversification of tasks and accumulation of skills and knowledge

3200 BCE: writing 3000 BCE, **Urban Revolution of the Bronze Age** in Europe and Asia, first cities

⇒ increase in economy and social complexity

Jack Goody: first states at that time and beginning of taxation ⇒ funds for new and more complex uses

The Urban Revolution is not a global phenomenon.

1.1 Why is that: Explaining the Proto Divergence

Jared Diamond: better domesticated plants and animals, East-West axis more suitable for migrations which help spread species and innovations

America had a delayed start

Result: in 1492, there were only two empires (Inca and Aztec) in the Americas

Difference in institutions: in Eurasia all children receive a share of the inheritance ⇒ matrimonial strategies to avoid dispersing assets

This also led to a strong solidarity system to deal with crises. Agrarian societies were still simple compared to later societies due to low urbanization rate and limited division of labor.

Low productivity leads to limited surplus and populations at the mercy of harvest

fluctuations **Role of cities:** markets, production of complex goods, host the main

magistratures and civil and ecclesiastical institutions. Progress was slow but existed:

water mills spread, heavy plough in Europe, crop rotation system, iron implements

The Mongol Empire (1206): Genghis Khan unites the tribes; 1279 they conquered the whole of China.



Consequences: overturned pre-existing states, favored exchange of ideas and goods across a huge area (revived the Silk Road)

The plague: central Asia(1330s), Middle East (1346) and Black Sea (1347): Genovese colons fleeing Kaffa brought the plague to Constantinople in 1347, then to Italy where it spread across Europe and North Africa

Plague continued until 1352 or 1353, 50 million dead just Europe and Mediterranean (33-60%)

Bad Consequences: breakdown of production and trade, loss of life and human capital

Good Consequences: adaptation and consolidation of public health services, re-adjustment of the relationship between population and natural resources (high number of famines in the 14th century) ⇒ more efficient agricultural production, abandonment of marginal lands, redistribution of wealth, overall higher living standards, higher wages for city workers .

The Great Divergence

Pierre Chaunu: The opening of closed worlds between 1450s and 1550s is crucial 1434: Portuguese sail around cape Bojador (Morocco)

Italian galleys were not suitable to sail the ocean

Hanseatic league: alliance of trading cities led by Lübeck which monopolized trade in the Baltic and Northern Europe

Portuguese technological progress: Northern and Mediterranean shipbuilding techniques, stern- post rudder,

mid-15th: Creation of the caravels

1488: Diaz rounds the cape of good

hope Vasco de Game reaches India

in 1498

Portuguese established trading bases along the African coast

During that time, the Ottoman Empire is expanding and threatening Venice and Genoa's possessions in the Levant

1434-1550: marks the beginning of a "**proto globalization**"

In 1500 some Asian Societies were at least level with European ones in terms of technology, balance tipped in the 16th century.

1.2 Origins of the Great Divergence

Three categories of explanations for the Great Divergence: Demographic, Institutional and Geo- graphical/Geopolitical

Demographic: higher concentration in the Mediterranean led to quicker spread of ideas and provided the critical mass and incentives to produce innovations

Gregory Clark: claims the Black Death provide the impulse: Since it remained endemic for centuries, the high mortality rate solves the Malthusian trap as populations were finally able to profit from improvements in technology. This can be seen in the permanent rise in real wages post BD

John Hajnaf: high marriage age led to lower fertility rate

Institutional:

Joseph Needham: emphasizes the role of universities that triggered the scientific



revolution and mercantile cities that stimulated interest in enterprise and innovation whereas centralized Asian empires restricted trade, economic elites and scientific progress. Other explanations include better market conditions, better property rights and political interest in requests of economic elites.

Geographical and Geopolitical: 1413-1433 Admiral Zheng, went towards the West but did not circumvent Africa due to the main obstacles arising way later than they did for the Portuguese **Jared Diamond:** natural barriers breaking up Europe in fragmented areas led to smaller states competing more likely to innovate to have an advantage against their rivals, whereas larger empires tried to preserve social stability more. ex: Japan rejecting firearms during the shogunate in

the 17th and China abandoning naval exploration

Pomeranz: easy access to the Americas and their exploitation enabled Europe to become capital rather than labor intensive development by voiding diminishing returns. Abundance of some key resources (coal in England) which enabled energy intensive sectors (for him the true divergence is in the 19th century)

Wallerstein: Creation of the first world economy with a core, periphery and semi-periphery that imposes an unequal system enabling a small advantage to increase and become permanent as the system expands

1518: Cortés overthrows the Aztec Empire

1532-1533: Pizarro overthrows the Incas

The high number of deaths in native populations led to lack of workforce ⇒ Beginning of the slave trade

1500 to 1870 close to 10 million forcibly shipped from Africa, especially after 1700

Spanish colonial Empire in the Americas incorporated the preexisting States. In Asia they limited their control to almost only the Philippines due to the treaty of Tordesillas (1494) and Zaragoza (1529)

Portuguese in Africa and Asia only built a network of outposts, trading posts and trading with local people James Cook to NZ (1769) and Australia (1770), first colony there in 1788.

2 NEW PLAYERS, NEW INSTITUTIONS

The process where Northern Europe gained superiority over Southern Europe is the Little Divergence

Venetian expansion on the mainland stopped after the battle of Agnadello (1509) against the League of Cambrai and in the 16th century both Portugal and Spain faced issues.

Portugal:

- Limited demographic and economic resources ⇒ Reliance on foreign operators for the north European market
- Success in Asia and Africa attracted competitors especially the English and

Dutch Spain:

- Acquired not only a colonial empire but also Milan and Naples after the Italian wars (1494- 1559) and possession in central and northern Europe ⇒ Conflict with major European powers, especially France and England
- Religious wars due to the protestant Reformation (1517)
- The exploitative nature of the colonization in the Americas led to suffering amongst native and imported workforce and the high quantity of precious metals imported



in the 16th led to inflation in Spain ⇒ More expensive goods than abroad and most metals didn't stay in Spain due to its reliance on bankers

The center of Europe moved to **Antwerp** in Flanders, a center of international trade between the Mediterranean and the Baltic. Its strengths include:

- Mercantile and manufacturing tradition
- Being a Spanish possession
- Spices and sugar imported by Portugal, English cloth, French and Spanish wines, silver and gold flowed in the city ⇒ Antwerp became a financial center due to bases established by the great bankers of Augsburg

⇒ Antwerp was Europe's economic capital for the first half of the 16th

1566: Rebellions and wars in the Low Countries (including Antwerp but it was retaken by the Spanish and blockaded for 20 years)

1585: Effective independence, formalized in 1648

⇒ Birth of the Dutch Republic

⇒ Benefited the Low Countries especially Amsterdam

However, the issues in the Low Countries advantaged Genoa for a few decades due to its privileged relationship with Spain. However, Spain's decline in 17th led to Genoa's as well ⇒ Amsterdam becomes the economic center.

Amsterdam also seized a lot of Portugal's colonial possessions and trade routes in Asia (except for Goa and Macao which they kept)

Privileged trading companies: 17th century in France, England and Dutch Republic. They had a

long term charter and privileges such as exclusive rights to routes/ trading monopolies on some goods. Some could even negotiate commercial and diplomatic treaties, have an army and govern territories and bases outside of Europe. Ex: Dutch East India Company (1602) and the English East India Company diversified trade with Asia, the Dutch West Indies Company (1621) managed trade and colonies in the Americas and was allowed to loot Spanish galleons

England also took a significant amount from the Portuguese in Asia during the 17th after having focused on the West especially on North America

⇒ Strong competition both in Asia and Europe:

- 1651: **Navigation Acts**, all goods to England's and its colonies' ports must be carried by an English ship
- 1652-1674: Three wars won by England

18th century: England dominates the sea of the whole world, and the center of Europe moved to London.

2.1 Origins of the Little Divergence

Geographical/Geopolitical, Institutional and Demographic explanation

Geographical/Geopolitical: Italy's position in the Mediterranean became a disadvantage, hard to access Atlantic trade while Ottoman Empire impedes trade with Asia ⇒ According to this explanation the LD begun in the 16th



Demographic

- **John Hajnal:** Late marriage in WE due to not living with parents led to more effective regulation of fertility ⇒ Improvement in living standard and a more rapid accumulation of human capital. Young people also tended to work for other families to have enough money to accumulate resources ⇒ more economically and psychologically independent and mobile workforce
- **Gregory Clark:** the emergence of England can be explained by the high fertility of elites and their downwards social mobility by division of inheritance ⇒ good practices of elites spread among the lower social classes
- **Guido Alfani:** the plagues of the 17th century impacted Southern Europe more

Institutional

- **Labor market** According to **de Moor and van Zanden:** The Black Death consolidated the European Marriage Pattern and made women enter the labor market ⇒ More workforce from the mid-17th and change in consumption as some luxury goods were demanded that had to be purchased (sugar, coffee, tea...) according to **Jan de Vries**, the Industrious Revolution preceded the Industrial Revolution as the putting out system involved women
- **Economic:**
 - Guilds encountered problems in the 17th because of cheaper goods from Low Countries and England ⇒ decline in the North and "rigidification" in the South.
 - Emergence of stock exchange (ASE, 1602, first real SE) and privileged companies:
- **Legal rights:**
 - **Douglass North** claims that full and secure property rights reduced uncertainty of economic activity and reduced transaction costs, and conflicts while increasing co-operation between actors. The Bill of Rights (1689) boosted the English economy by being more democratic ⇒ more secure property rights
 - **Prak and van Zanden:** Citizenship rights consolidated in England and Dutch Republic ⇒ Reduced cost of transaction between State and individuals ⇒ Better fiscal capacity ⇒ More and broader public services that promoted economic and human capital growth (education, health...)

Acemoglu, Johnson and Robinson combine institutional and geographical: less absolutist states were able to innovate in order to fully exploit the Atlantic trade

Disagreements: some believe guilds played a positive role, disagree on effectiveness of citizenship and property rights...

Weber argues that the Protestants belief in predeterminism led them to seek more worldly success

Meanwhile in the Americas: France arrives in 1520 in North America but is very slow to colonize, at first rather creating a system of trades with Natives

1607: First English colony in NA



1620: Pilgrim Fathers

While the English colony in NA developed quickly, the French ones struggled to attract immigrants

1664: England conquers New York and gain all the Dutch NA colonies

⇒ From the end of the 17th series of wars between England and France and English expansion 1754-1763: Seven Years war, first war to spread to Europe and end of New France

1765: Increase in taxation in the 13 colonies

1775: Armed rebellion

1783: Treaty of Paris, US is officially independent

3 THE INDUSTRIAL REVOLUTION: TECHNOLOGY AND SOCIETY

19th: For the first time in history, quick population and income growth in NA and Europe During the classical period (1760-1830), there was no dramatic increase in English GNP per *capita* Industrial Revolution from 18th to mid-19th saw a sharp increase in population (hence small growth per *capita*) and the development of new sectors with very fast growth

The IR is when the foundations of economic development are laid with the growth rate strongly accelerating after 1830.

3.1 Prior changes

- Initial impetus from foreign trade and the Empire
- Large population growth in British Isles/Netherlands/Scandinavia while lots of death from Thirty Year's War around the Mediterranean and Italy ⇒ Northern and Atlantic merchant communities became stronger
- Naval supremacy to enforce mercantilism
- Rivalry with France: Eight wars between 1689 and 1815 increasing public debt

British Strategy:

- Trade surplus to be able to afford imports
- New markets to create jobs
- Expand maritime routes and develop the merchant fleet, national defense and shipping services. The Navigation Acts marked the end of special privileges (except for two) and the creation of a national monopoly
- Implementing protectionist policies lead to the development of domestic manufacturers
- Attracting skilled workers in the 17th and 18th brought new techniques in multiple do- mains

3.2 Early Transformations

Before and during the Industrial Revolution: Agricultural Revolution from the 15th to the mid 19th



Features:

- Expansion of arable land due to land reclamation
- Per *capita* output increases due to enclosure, new crop rotation systems, canal building, high yield seeds, foreign breeds...
- ⇒ Agriculture became a commercial activity, the Corn Laws (1663-1846 incentivized ex- porting grain)
- New strategy: favoring producers with representation at the Parliament and trade mea- sures to favor profits

Changes in the labor market: between 1710 and 1870: Primary sector % divided by 2,5 while tertiary multiplied by 2,5 and slight increase in secondary sector, despite massive increases in production ⇒ massive increase in per *capita* output and the secondary sector was already important in England early on

The IR enabled fast population growth between 1750 and 1850 without rising food prices for the first time. Growth was due to lower marriage age and better hygiene and healthcare (smallpox vaccines)

17th Century: Rapid growth of London

18th: Rapid growth of Liverpool, Birmingham, Leeds, Manchester... whose population increased tenfold in 100 years

Manufacturing workers moved from the country to the city between early 18th and 1870

All this would not be possible without the growing availability of coal at stable prices for both households and industries

3.3 Technical Revolutions

Massive progress in transport, especially between 1750 and 1830 lead to faster travel times and drop in cost of transport:

Mid-18th century: Turnpike roads and navigation canals (cheaper to use than roads) thanks to private ventures supported by the Parliament

1830: Trains start to play an important role in GB

Three Stages of technological revolution:

1760-1820:

Increase in patented inventions (Watt's Steam Engine, puddling, *jenny*(for textiles)...) ⇒ Limited but important sectors, enabling increases in output in some sectors. Despite that, per capita in- come stays similar although some industries grew enormously (especially cotton and textiles).

The development of the iron and steel industries led to cheap high-quality iron being produced by the end of the 18th 1820-:

Micro-innovations and improvements leading to lower production costs (Self acting mule, new textile machinery, new blast furnaces, progress in chemistry, telegraph...).

This phase was a tran- sition between the First and Second Industrial Revolutions. It's also when the steam engine be- came important

The sectors that benefited the most were cotton and textiles, energy and the iron industry

The boost in development owes a lot to very small and specific innovations rather than a few ma- jor ones

A few examples of important innovations or sectors that strongly improved: canning, chloralkaline process, new tools, continuous sheet of paper, glass making, gas lighting, optics



We also witness an increase in consumer goods and product quality with the growing middle class enjoying an improved standard of living

Some historians argue that the factory system is the central event of the IR through increased efficiency and social mobility stimulating entrepreneurship. Others argue it created an exploited

proletariat with worse living conditions. Regardless, they are mostly an event of the 2nd IR

The demand for new consumer goods boosted the English economy by increasing its industrialization. So did the increase in real wage.

In the mid-19th (1870) century GB was the leading industrial nation.

4 WHY EUROPE? WHY BRITAIN?

Unique traits of Europe even in the **1700s**:

- Geopolitical and commercial expansion
- Overseas empires
- acceleration of the economy and urbanization
- philosophical and cultural setting putting man at the center ⇒ Renaissance, Enlightenment and scientific revolution

4.1 Why Europe?

Europeans profited from long distance trade (Overseas expansion, precious metals, coal, American plantations...) while China believed it was self-sufficient and didn't invest in commercial ventures that felt unnecessary.

The fiscal military state enables long distance trading through military protection. The number of States in Europe created competition pushing States to invest in military and naval power that found civilian uses.

European technology was helped by immigrants (Jews, religious dissenters, merchants...) Politically, the imitation of best practices led to institutional convergence between the 18th and 19th

The rise in public debt provided another incentive to innovate and led to mercantilist policies 1700-1850: Comparing China and Europe:

- Weak Chinese state, trying to maintain political stability and internal order
- Europeans: Highly motivated towards competition with key concepts being developed ("external market capture", "state export-oriented")

Europeans also created value through their expansion: systematic collection of data which led them to scientific and technological advances. They also exploited and enhanced everything they could which led to more incentives for investments, trade and innovations

Technological progress led to Europeans questioning traditional religious authorities and texts and lead to the development of a new scientific approach (prerequisite for the Enlightenment) **Joel Mokyr**: The IR begins at the end of the 18th through new interest in technology in what he calls "industrial enlightenment". The first IR happened when science and technology were still separate but technicians were already codifying regularities and procedures, which made the convergence possible eventually. He notes that since these developments were European, the IR would likely



have occurred with or without Britain

Some believe the rise of Europe is due to the family structure and the industrious revolution. **Jan de Vries**: the increase in consumption and working hours between 1650 and 1850 occurred in Northern Europe and North American colonies and not elsewhere

⇒ Emergence of a middle

class who increased the demand for consumer goods

4.2 Why Britain

- **Geographical**: less vulnerable to direct threats, navigable rivers, enabled by lack of mountain helped give Britain a more unified domestic market. Finally, the country's position enabled it to participate in the economy around the North Sea and later in the Atlantic trade.
- **Economic policy** caring particularly about merchant classes engaged in foreign trade, a crucial element of the first IR (minimal increase or decrease in prices of goods)
- **Military**: the Royal Navy protected foreign trade and new markets. Consistent victories against France in the long 18th century.
- **Factors of production**: some resources were scarce and led to innovation in finding substitutes (wood and coal). Coal made it possible to avoid diminishing returns of the traditional energy system. The Americas' agricultural land enabled them to get cheap agricultural goods
- **Higher labor costs** despite the putting out system (which worked in countries with lower urbanization rates) led to interest in labor saving machinery (cheap energy)
- **High number of specialists**: engineers, technicians and scientists alongside specialized workers trained in an apprenticeship system
- **Institutions**: Anti-absolutist and pluralistic ⇒ Benefits of economic activities were distributed more broadly. There also were stronger property rights, better financial systems, less barriers to industrial expansion and no foreign trade monopolies thanks to the Glorious Revolution. The Common Law system was also more flexible than the Civil Law systems.
- **Smaller divide** between social classes, greater social mobility. The middle class led to a greater standardization of consumption ⇒ Helped mechanize production.

Other European countries had some of these but only Britain had them all so early (**Peter Mathias**)

5 AN UNSTOPPABLE PROCESS

Every country that industrialized did so following its own path

Start of the 19th: Continental Europe experiences mechanization of production processes (it's worth noting GB never had a monopoly on technological innovation, also it was the leader) **Sidney Pollard**: spread of industrialization from GB to Europe was a peaceful conquest that spread regionally and not nationally. While it's true, national interests and policies still played a key role



5.1 The Universal Banks

Second half of the 19th: The road to industrialization was traced but was complex and costly.

In a few decades Germany became Europe's leading industrial nation by focusing on heavy industry, which entrepreneurs could not afford supporting with their own money

⇒ Creation of universal banks

Universal banks assumed the risk of directing resources towards long term projects. After unification in 1871, its banking system paired with modernized institutions led German industries to be the best in Europe.

1876: Creation of a strong central bank

Local components of the banking system instead focused on small and medium sized businesses

⇒ Germany developed capital intensive companies

5.2 The State

Tsarist Russia: State intervention was needed (through subsidies, commissions and custom duties) Countries that industrialized later were able to use newer technology without having to go through the whole process Meiji Japan: 1868: "Revolution from above" ends the Shogunate and returned

the emperor to power ⇒ In a few decades Japan was transformed by state intervention (in military, political, banking, economic... institutions)

Since the "unequal treaties" prevented protectionist tariffs the Japanese government invested directly in industry

This was met with an economic and social response from the population ready to embrace forced industrialization: Entrepreneurship was widespread and brought capital especially from trade. The most dynamic class was the *chonin* (urban merchants and craftsmen)

Italy: Some areas were dynamic but still relied a lot on **Alender Gerschenkron's** substitute factors: Universal banks at the end of the 19th century ⇒ especially helpful for the steel and electricity sectors. Overall negative response from the population to industrialization

The transport revolution sent Italy's primary goods-based economy into a crisis ⇒ the State supported the steel sector, creating and heavily supporting a modern steelwork. Similarly, the State

often had to rescue banks quite often until 1933

However, an impulsion from above alone is not enough (Italy had a dynamic entrepreneurial fabric although not uniform). The Egyptian State in the 1820s and 1830s intervened massively but the lack of worker willing to adapt to industry's discipline posed problem. Overall, the society was not responsive to industrialization.

5.3 The Social Fabric

Micheal S. Smith: France's post WW2 economic development to its 19th roots.

Business history argues the development of European countries was based on the 19th century's spread of technological skills, entrepreneurial and organizational competence and their reactive social fabrics

6 A NEW WORLD BALANCE



The Second IR was marked by major innovation and the systematic application of science to industrial production processes. New forms of company organization, emerging sectors become leader (iron and steel, chemicals, mechanical engineering...).

Widespread use of electricity ⇒

Shift in the world's economic balance for the last decades of the 19th, Germany and the US over-

take GB. The American leadership was based on large capital, management intensive companies, standardized mass production and applied scientific knowledge.

6.1 Big Business

Developed during the Second IR. It required fast transport and communication (train and telegraph). They used new networks to reach wider markets and reorganised their internal systems using regular routines.

The heavy financial requirements for telegraph and trains led to new kind of companies emerging, with a formalized management organization and precisely defined relationships of authority, responsibility and communication between company functions.

New management tools (organizational chart, *line and staff*)

The main reason is the emergence of new processes after 1870 (petroleum distillation, mass processing of foodstuff, canning machinery, Gilchrist-Thomas converter...)

⇒ The Second IR differed from the previous one as production processes required a lot more energy which enabled high speed production

¼ Only certain industries were impacted: Some sectors (wood, textile, leather...) kept their traditional, labour intensive processes ⇒ small factories were as competitive as big ones
For other, the increase in factory size led to their reorganization in order to ensure the production

functioned continuously ⇒ Significant reduction in unit cost through economies of scale
The creation of an extensive managerial hierarchy was key to :

- Protect against risk posed by suppliers
- Overcome problems with distributors

⇒ Vertical integration enabled companies to supervise production, supply and distribution which required central office and managerial staff. The company's direct link with the market through distribution was new ⇒ stimulus to improve and R&D to exploit economies of scope

After a few decades this had an impact on the international economic equilibrium

Competition shifted towards strategy and function instead of prices ⇒ constant improvement in company functions and research in new products and markets.
Companies also expanded beyond national borders: This began by a marketing network then investments in production.

6.2 Technological change

Different approaches from Germany, GB and US

US: Big corporations were established and became the global standard during the 20th

A few British companies did the same but most still produced goods that required little



sophisticated technology. Family owners also played an important role alongside managers.

In Germany, focus on heavy industry which required a lot of managers as well as important investments ⇒ Universal banks

6.3 Towards a Global Scenario

GB and Germany relied a lot more on the foreign markets than the US did due to its big domestic market. The railway had a huge impact on the US and Germany but not on GB. German industry was boosted by its need to modernize its cities. Between 1870 and 1914, GB companies had markets with low dynamism and little response to new challenges created by tech innovation. Overall, at the end of the 19th Britain became rigid and innovated less in terms of organization

American paradox: Antitrust legislation at the turn of the century and despite its corporations still worked together and became even more dominant

British also had legislation to ensure competition whereas German companies were allowed to engage in cartel behavior and were even protected by law

Germany created collaborations between entrepreneurs and managers while GB was more against the modern industrial economy and "third generation" entrepreneurs were more like gentlemen than true

Schooling system: Germany developed the world's best universities, with one system for technicians and the other focusing on business, legal, finance... The US switched from focusing on technicians (1880) but then got universities for engineers with strong ties to big businesses. The British system did not have anything similar

In the 1890s, excess production led to falling prices =< deals between companies to keep prices high that failed ⇒ mergers instead (US especially). Rockefeller's Standard Oil Trust led to reorganization, centralized administration and selection of the most efficient plants led to a sharp decrease in production costs.

British mergers took the form of business federations where each company was independent but focused on a particular part of the production process// Overall, the failure of big companies in GB is what led to its relative decline from 1880 onwards.

7 THE WESTERN MODEL AND ITS LIMITS

7.1 Tsarist Russia

19th: Russia is reactionary absolutism:

- Limited urbanization
- small bourgeoisie
- power was concentrated by the tsar
- nobility controlled a lot of the land
- industry was backwards (apart for sugar and cotton)
- Serfdom was still prevalent and harsh



Increased pressure on peasants (1855-1861) led to close to 450+ uprisings

Modernization was driven by conflicts

1856: Humiliating Treaty of Paris: urgent need for change ⇒ 1855-1861: Abolition of serfdom, corporal punishments and courts for different classes of society. Peasants became taxpayers in-

stead of goods and creation of a system where pieces of land were granted to peasants in exchange for repayment (but uncertainty on ownership discouraged peasants from trying to improve)

Increase in population and these reforms between 1860 and 1900 led to the conditions of the population worsening ⇒ Alexander II killed by a bomb in 1881. New set of modernization reforms from 1893 to attract foreign capitals. Industrialization based on domestic factors failed: Over a third of shares before 1917 were owned by foreigners. The gold standard was also adopted. Despite massive efforts by the State, there were mediocre results. Substantial development of heavy industry but poor quality. Light industry and consumer goods were ignored ⇒ Russia remained a backward country

7.2 Imperial Japan

Tokugawa period started in 1600 and was the last stage of feudalism. It ended a period of feudal anarchy. The ruling coalition dominated smaller area of territory than rivals' feudatories ⇒ no centralized states like **European Monarchies**.

Policy of isolationism, westerners expelled from Japan. System of alternating residences (1635)

⇒ migration of elites to the capital led to communications network and basic integration of the

domestic market & creation of regional markets. Fashions from the capital spread and led to an industrious revolution that became an industrial revolution 150 years later. It also encouraged deruralization. **Mid 1700s**, increase in the power of the mercantile class who became bankers and used their money for political influence. Feudatories struggled financially and had to dismiss their military nobility.

1853: Perry forces Japanese ports to accept US goods ⇒ Prime Minister attempts to unite country

through the support of nobility not in the government and merchants ⇒ Discontent especially

with the unequal treaties. Import of cheap British goods led to collapse of spinning and higher costs for weavers ⇒ launched the *Sonno Joi* revolutionary movement which demanded restoration of the Emperor ⇒ Eventually, dissolution of the army

7.3 Meiji restoration

1868: Founding event of the modern Japanese state

After renegotiating the unequal treaties, Japan became imperialistic to obtain resources such as raw materials and food which were lacking

The action of the State as well as the extremely cohesive group formed by samurais formed were key elements

Also key: chonin (city dwelling merchants) represented the majority of entrepreneurs

Challenge: Raising sufficient capital to develop economic activity as bankers were not interested in industry ⇒ Infrastructure investments from the State were crucial and introduced Western



tech as well as universal education and conscription.

To compensate for the large debt, the government sold pilot factories to great industrial conglomerates (*zaibatsu* which formed from the 1880s). Since they needed a strong currency, they also adopted the gold standard.

7.4 China in the Late Qing Period

Peaked in the 18th: Increase in population and some urbanization ⇒ Agriculture was encouraged and boosted by New World crops and hydraulic engineering projects.

Elvin: the country is stuck in a high level equilibrium

Industrialization was not a priority in part due to Confucianist values

Economic concerns appeared because of imperialism, when GB increased its hold on part of India

India ⇒ Increase in trade with Asia, esp China for tea ⇒ British goods not valued sufficiently ⇒ Too much money sent to China, the British decide to send opium instead ⇒ China's balance becomes negative and population's health goes down ⇒ **Opium wars** of 1840 and 1860 ⇒ Internal tensions and revolts with the dynasty staying only thanks to the West.

Extension of the "unequal treaties" to people, goods and property rights, reparations in silver left peasants impoverished ⇒ Chinese leadership began to use Western studies in the 1860s. Attempts at heavy industry

Overall, some benefits in the areas with foreign presence but weakening of the Imperial power. Creation of an entrepreneurial class but industrialization and liberalization faced setbacks. Western started to focus more on loans and investments. The anti-Western Boxer rebellion destroyed the dynasty's control of bureaucracy ⇒ Perfect conditions for the republican revolution



7.5 Latin America

Persistence of slavery until the end of the 19th left them behind. Once abolished ⇒ Attract Euro- pean immigrants between 1850-1930. After independence (post 1808) the order remained similar and strong men took power after the conflicts (1830).

Economic development started in the late 19th stimulated by external factors and limited to min- ing and processing commodities and food. **Railways** built by French and British capital in the mid 19th. In Mexico the State seized land to force the peasants into being an industrial workforce. All across LA, companies were allowed to take land away from families and had a lot of influence

The First Phase of globalization

Between the Napoleonic wars and the Crimean War, the Concert of Europe established the bal- ance in Europe. But disruptions started to occur: Industrialization shifted the balance, Suez and Panama canals, railways, **Most favored nation clause...**

1800-1913: huge increase in world trade drove industrialization, liberal migration policies led to enormous migration movements.

Economic crises every decade between 1850s-1890s. Between 1870 and 1890: longest period of deflation in history due to over production and financial crises

Say's law: production of goods generate an aggregate demand sufficient to buy it all up ⇒ the market tends towards equilibrium

Juglar: Identified 6-8 years long cycles based on excess of credit. **Kitchin:** Identified a cycle of 3 and a half year based on wholesale price and interest rates. **Kondratiev:** Identified 50 years cycle with four steps: Prosperity, Recession, Depression, Recovery. **Shumpeter:** Argues that these are the essence of capitalism (creative destruction) through the action of the entrepreneur.

7.6 The first Great Depression and neomercantilism

1873-1896: Prices dropped by 22% in the UK and US and then in other countries due to excess pro- duction as the huge. **List:** growing profits had become the stigma of modern development, and the world faced monopolistic competition. He also argued that the development of industrialization required to adopt protectionism in order to overcome the first comer advantage ⇒ *Laissez faire* was blamed and protectionist measures put in place by most countries.

7.7 The Gold Standard

England: 1819 but movement gained strength in 1873 before disappearing in 1929

Before: Silver standard or bimetallism and the British dominated world trade, with the sterling being put at the center.

1865: Latin Monetary Union by FR, IT, CH and BE, which switched to gold standard after the French defeat at Sédan (1870). 1873: German gold standard while silver reserves were discovered

⇒ its partners and a lot of other countries adopted the gold standard

The US made multiple reforms to silver to push the Mc Kinley Tariff to protect the



domestic market) before switching to gold standard in 1894 after reserves of gold were discovered which drove up the prices of agricultural goods. The gold standard benefited free trade. The gold exchange standard was more common. **Gold standard:** Instant conversion of gold into money at a fixed exchange rate, no restriction on commerce of gold. CB had to keep the exchange rates fixed and countries had to have orthodox fiscal and monetary policy. Reminder: The three elements are: Fixed exchange rate, Independent monetary policy and free capital mobility ⇒ Gold standard meant giving up the second. The system collapsed in the 1930s as the crisis required expansionist policies and cooperation between CB ended

7.8 Imperialism

Weapons and medicine progress enabled Europeans to colonize and it became their focus. (**Kipling:**

The White Man's Burden)

I was seen as necessary for survival and prosperity (GB for example was already dependent on their trade monopoly with their colonies)

Hobson viewed this as a rush toward monopoly by states that would lead to conflict and suggested boosting domestic demands through high wages

This was done directly by States not companies. The conference of Berlin 1885 legitimated the colonial possession of European powers and launched the "Scramble for Africa". The British opted for indirect rule while the French opted for direct rule and to assimilate the populations

The Congo was Leopold's II personal fief until 1908 when his brutality led to it being given to the Belgian State

8 THE GREAT WAR

8.1 Social Consequences

New collectivist concept of the State which guaranteed new rights and entered private spheres. **Weimar Germany:** 1919, ideal representation of a classless society. The State is responsible for citizen's essential needs, private property would be regulated to be used for the common good, the State can control prices, imports and exports...

Constitution of Fiume was even more progressive.

France's demography was damaged by the deaths as Germany had a strategy to just kill as many as possible in **Verdun** (1916). The trenches started the "cult" of the commanders.

New vision of art: Freud and Jung getting recognized, *avant-garde*, Joyce and Faulkner
Politically, the **Great War** caused a shift: loss of trust in the government, increase in insecurity, parties becoming ideological and extremist parties gained in popularity thanks to propaganda techniques developed during the war and organizations

8.2 Total War

The war was not seen as inevitable and expected to be short. The plan was to quickly crush the enemy which didn't happen, and the war settled into a war of attrition on the Western Front (which benefited the Entente, with more colonies and the ability to blockade Germany which replied with Uboats sinking British ships). **April 1917:** The US declare war on Germany (at first only making its industrial and financial resources available to the *Entente*). After the surrender of Russia Germany was able to make



some progress which enabled them to persist until 1918. Among their main struggles was finding raw material, as they were reliant on imports. Their weapons production was sufficient until 1915, Hindenburg plan to increase production in 1916 (Somme as well)

The British set up conscription despite it going away from tradition. Italy entered the war in 1915 and created a ministry to supply armament in 1917, whereas France did in 1916. Despite a specific committee, Russia still lacked weapons. In the US, it was coordinated by the War Industries board.

The war contributed to heavy industry, cars, engine technology, chemistry, metallurgy...

The US stayed on the gold standard and **the Entente** needed to find a way to ensure parity of sterling with dollars as other countries depended on it ⇒ Only solved with the entry of the US in **1917** France, GB and US lent a lot to their allies and was a factor of dispute post war. The economic and financial center shifted to the US. In Central Empires, the war was financed through public debt and led to high inflation, although most countries were affected (including neutrals)

The punitive nature of the **Treaty of Versailles** made the *jus publicum Europeaeum* impossible (**Carl Schmitt**. This was a failure of Woodrow Wilson's goals and Germany's debt was impossible to pay back, especially considering they were isolated from financial markets. **Keynes** disagreed with that choice and left the delegation, claiming it would destabilize Europe. In the US, Republicans won the midterms in 1918 and refused to join the Society of Nations + isolationism.

8.3 The geopolitical and economic consequences

The economic systems were disrupted, and countries devalued currencies and became protectionist to help with trade, which damaged it a European level

In Russia: Nationalized land and factories left international economic circuits and repudiated its foreign debt ⇒ Starvation and poverty for the population.

Massive losses in population, agriculture and land. NYSE replaced London. Agricultural produc-

tion was driven to LA, Africa and Asia, with exporters benefitting from higher prices

9 POST-WAR YEARS: THE AGE OF INSECURITY

9.1 The return to the IMS

Some countries experienced growth in **1919** (GB, US, France, Japan experienced the biggest as demand grew again) However in following years, inflation and unemployment went up and depreciation of exchange rates led to austerity policies in a lot of countries.

There were difficulties transferring from a war to a peace economy ⇒ returning to the gold standard was supposed to help. Only the USA were able to support the system. Radicalization due to more voting rights.

The system lost credibility due to lack of certainty that readjustments would occur and speculation worsened inflation. Countries whose monetary systems had been destroyed (Germany, Poland, Hungary...) went towards convertibility the quickest, and in 1927 most countries had gone back to the gold standard, some with devaluation of currency due to high inflation.

GB: prewar parity in 1925, restricted public spending, overvaluation of sterling and strikes ⇒ Recession.

France: Realized Germany wouldn't pay, invested in its industry and devalued the *franc*. Political fragmentation was strong and eventually France returned of the gold standard. With the devaluation of the franc, exports were improved and capitals went to France (investors expected an appreciation). France also accumulated a lot of gold.



Due to lack of gold, the gold exchange standard developed with sterling and dollars (which was a problem as GB was very weak financially). The biggest issue was lack of cooperation between countries and central banks, as well as the irregular investments done by the US.

9.2 German hyperinflation

By 1923, the German mark was worth almost nothing (precipitated by the invasion of the Ruhr). After Hitler's failed coup, steps to stabilize the currency were taken: Creation of the **Rentenmark**, backed by a loan secured with real assets. 1924: Dawe's plan reduced and extended the deadlines for payments and a loan was made in exchange for restrictions on public spending. 1925: **Treaty of Locarno**, which helped improve relationships with France. 1926: Germany to the League of Nations. Hyperinflation was lived very poorly by Germans who saw this as a return to war poverty

9.3 Economic Expansion in the 1920s

After the 1921 recession, world industrial output recovered although unequally. This was driven by industries of the second IR. Vertically integrated multi functional companies grew in size and were organized in specific divisions. New goods spread (bikes, sewing machines, radio sets...) The modern entertainment industry developed helped by fewer hours worked and higher urbanization.

Unemployment in Europe was still higher than prewar due in part to difficulties in agriculture, with falling food prices. Overall, the uneven income distribution impeded more growth of consumption. After 1925, the US had a boom, with GDP growing by 43% in eight years, driven especially by cars, electricity and real estate. Modern consumer society was developing and increased productivity led to increased profits without raising prices. Increased complexity separated ownership and management. Expansion of middle class, rising salaries and spread of consumer credits lead to company investments being quickly repaid and an increase in R&D The car industry was particularly important, as it stimulated many other industries as well as increased population mobility and flexibility, changed the way of life through the suburbs and it was a leader in innovations in management with Ford and Sloan. The economy started slowing down in 1929, collapse of the stock market at the end.

9.4 The Soviet Union

End of Russian Civil War in 1920, **USSR** proclaimed in 1922. The state planning committee failed as most companies operated independently and sold on the black market Expropriation discouraged people from investing and massive migrations occurred, huge famine in Volga region (over 1.5 Million dead)

In **1920**, two uprisings were crushed but led to part of the market economy being reinstated in 1921 through the new economic policy. The goal was to use agriculture to have enough money to reindustrialize in an alliance of workers and peasants. However, the NEP failed to reach its goals and agriculture did not go back to its previous level, in part due to fragmentation of the plots, limited food price and the goods produced were not adapted for the population (too expensive or useless). The **NEP** limited investments in some sector, although they got some military tech by allowing Germany to test their banned weapons on Russian territory.

Lenin died in 1924 ⇒ Succession battle, won by Stalin in 1928 who criticized the NEP in



the end and launched agricultural collectivization and imposing industrialization.

10 THE CRISIS OF CAPITALISM

10.1 The Wall Street Crash

Brokers unable to pay back debt ⇒ Value of collateral shares dropped ⇒ banks weakened ⇒ 1930: first bank failures and bank run ⇒ No more bank money to businesses ⇒ deflation and depression due to overproduction ⇒ Bankruptcies and jobs lost, adherence to the gold standard made

it worse as a restrictive monetary policy was required. There had already been contractions in 1928 and 1929, and the credit sector was weak as many banks operate outside of the **Federal Reserve**. Share values were also driven up by investment trusts. The first major fall was October 1929, and the second fall lasted until 1932.

10.2 The Depression

Numerous industries and sectors suffered, exports contracted damaging foreign economies, deflation increased. **1930**: protectionist policies in the US led to tit for tat with the global trade shrinking even more. GB left the gold standard in **1931**, US in 1933, those that stayed raised import duties and controlled money exchange and flows of capital. In the meantime, Stalin's first 5 year plan was a massive success that reindustrialized the USSR. Hoover refused to establish a welfare state due to his belief in self-made man and self-government. He tried to help out the biggest banks but his intervention was too limited. He took some other steps (agricultural cooperatives, reduced taxes and interest rate...). In 1931 he grants a reprieve on the repayment of debt from Europe.

In Germany, the failure of the Credit Anstalt had a domino effect. Universal banks meant that industries were particularly touched. The government became part-owner of some banks but it wasn't enough. He led deflationary policies, that led to foreign goods becoming more

competitive. In July **1932**, the NSDAP became the first party in Parliament

France was not as affected by unemployment as it kicked out a million North African and other foreign workers. Violent clashes between the police and communists/Action Française.

1933: London conference but no agreement was found.

10.3 The Keynesian Revolution

Keynes showed that Say's law was wrong and there could be scenario where there was no automatic correction of demand. **Keynes**: Demand determines supply and not vice versa

11 STATE INTERVENTION

11.1 The New Deal

Roosevelt president in 1932: Fireside chats. Novelty to his approach: Empirical Data, trusting professors and financial experts and being unconventional. Huge amount of new legislation in the first days. 1933-1935: more so based on economic reasons, 1935-1938: Social. First off, banking holiday to see which one was solvent that would receive aid and readmitted into the market. The **Emergency banking act** gave full financial power to the president. The 1933 **Glass-Steagall Banking act** split commercial (short



term loans) and IB. It also prevented banks from placing, selling or buying shares in a private company. Finally, it enforced insurance on deposits. Creation of the **SEC** in 1934, with the role of evaluating companies wanting to join the NYSE. After the US set the gold standard, gold was removed from the market and a bullion of gold was forced to be sold to the government. A huge amount of unsupported currency came into the economy, the rest made of silver coins to stimulate silver mining ⇒ The US dollar lost half of its value in a year.

Two main plans:

Agricultural Adjustment Act: Boost internal prices and detach them from current world market price. Through subsidies to produce less, to export at a price lower than cost of production and high tariffs. Overall, a success. **Natural Industrial Recovery Act:** Regulate prices and industrial output with guaranteed pay levels, limit on working hours and trade unions right. Disliked by everyone and has no significant growth in production or employment. They were ruled unconstitutional in 1935 and 1936, NIRA was abandoned, and AAA was modified. He also launched a series of public works to create infrastructure in economically depressed zones, organized by federal agencies incl the PWA (Public Works Administration).

Although he revived the spirit of the nation and inverted the economic dynamics, the economic results were disappointing, with a new recession starting in 1937 and prices in 1939 not as high as they were in 1933. **The New Deal** created a third way in which the State took on a leading role and adopted deficit spending.

11.2 Germany

Hitler becomes chancellor on the 30th of January 1933 and announced a four-year plan. The Communist party was banned after the fire of the **Reichstag**. In March, the Enabling act makes Hitler a dictator. Political parties and trade unions were suppressed, and the revolutionary element of the **NSDAP** was purged in 1934. The top goal was employment, which they pursued through public works funded by massive amount of public debt. German companies were helped and nazis provided leisure activities and holidays for workers and their families. Creation of a compulsory **National Labor service** in 1935. By 1936, there were manpower shortages. The Second four-year plan focused more on the army and preparing for war with investments in chemistry, mining and arms industry, as well as a strong effort towards autarchy. It never managed to become self-sufficient with regards to agriculture.

They created a series of local offices to supervise industry and maintained the structure of private capitalism while redirecting them towards Hitler's goals. The Nazis relied on domestic debt to not disclose how much they were spending on armament.

The MEFO (Metallurgical Research Society): promissory notes created by 4 of the most important German Companies, the German government paid its commissions with them.

The State also forced insurance and banks to hand over their funds, which they transformed into mid- or long-term bonds. Schacht also limited imports to only what Germany couldn't make and compensated with German goods of similar value, which limited the outflow of gold and created a market for German goods, especially in the Balkans, which increased German influence there.

During the war, Germany's approach to women's work and due to the choice of broad over deep armament, Germany was beneath the Allies in terms of total mobilization. During the war it launched more total mobilization through concentration and standardization. It achieved its maximum output in 1944 and invented new weapons V1, V2, jet fighter planes and submarines powered by diesel and electricity.



11.3 Italy

The Italian economy was on the brink of collapse in 1932 due to a huge lack of liquidity from banks. In 1933, the government bought the shares through the **Institute for Industrial Reconstruction** before eventually disinvesting. The three biggest banks were nationalized.

1935: Attack of Ethiopia, sanctions from the society of nations. 1936: Self-sufficiency policy and heavy industries related to defense were grouped together in key industries with special status. **Autarchy:**

- Accelerated the exploitation of Italy's domestic and imperial resources
- Consolidated the State's economic intervention
- The population learned to be frugal
- It permanently mobilized the community towards the idea of war

Thus Italy progressed on the Labor Charter plan to create a corporative economy of the totalitarian state. **This means:**

- Centralized planning, investment and production
- Use of IRI to consolidate heavy industry and increase state control in vital sectors
- Socialization of companies, the participation of workers and technicians in management (only achieved at the end of the war)

1936: banks and industry are split and banks need to focus on short-, medium- or long-term credits. 1937: **IRI** became permanent and became the fundamental organ of socialization and planned industrial policy.

The war in Ethiopia strongly stimulated the Italian economy, in part through exports to Italian East Africa

1939: Italy occupies Albania.

11.4 The Soviet Union

By eliminating the free market encouraged by **NEP:**

the government formed prices and kept them artificially low and obtained the surplus for the army while peasants had to pay high prices. Unrealistic goals for farms

1927 food crisis: people were pushed towards *kolchoz* and the *kulaks* were blamed for low results

⇒ Hundreds of thousands of families were deported to *gulags*. Early 30s, famine in Ukraine killing millions

By trying to reach impossible goals, Soviet companies came into conflict with each other for raw materials and priority status

Heavy industry, mining and energy grew a lot in the 30s, while consumer goods were neglected. Damage to the environment, production-based or quantity rather than quality, useless projects were undertaken (White-Balti Sea canal). Purges occurred, people lived in poor conditions and labor was glorified (Stachanov). However, from a military POV it was very successful



12 WWII: CREATIVE DESTRUCTION

12.1 Destruction and Creation

The war had a tremendous impact: vast destruction, human and economic resources depleted, new geopolitical order, decolonization, removing dictatorship... It also brought an end to stagnation over the 30s thanks to military spending that in some places led to the accumulation of capital goods, knowledge and skills

12.2 War and Growth

Despite destruction, the overall growth of global economy. Huge amounts of assets were mobilized with economies working at full capacity. This effect was particularly visible in the US.. Some countries (Belgium, France, Central and Eastern European) were impoverished though.

The money that went towards armament often came from taxing family incomes and thus reduced private consumption

12.3 Investments and Foreign Trade

International Trade varied by location but overall, downwards slope. Some neutral States benefitted but international trade was hindered by increased risk of transport, shift of consumption and reduction in families' purchasing power. An exception was the **Lend-Lease** program started in 1941 through which the US provided food and supplies to the Allies with no interest. International trade became more regionalized (Oriental, Anglo Saxon, continental Europe, Soviet...). Hard to measure because of forced expropriation though. As in **WWI**, companies belonging to citizens of enemy States were requisitioned and stopped or nationalized. The general uncertainty and difficulty in transferring funds significantly diminished international investments.

12.4 The sectors of War: Agriculture and Raw Materials

Agriculture: Lack of manpower, engineering and chemistry companies focusing on the war and 1930s policies diminished production. In some places though agriculture developed (US Mid- west, Australia and Argentina fed the Allies).

Raw Material: Greatly affected, mining output was driven to the max and control of key material (petroleum, synthetic rubber, copper, rubber...) was crucial and led to the development of alternatives (synthetic rubber and oil)



12.5 Growth of the arms industry

Grew extremely quickly during the war but the industrial capacity of the Allies was clearly superior. Growth was boosted by mass production techniques and industrial concentration, with big and energy/capital intensive companies becoming key

12.6 Planning for Combat

Small and medium sized companies coordinated by big ones were key. The temporary suspension of market dynamics with more regulated systems that limited inflation was also very important. State intervention, in line with WWI and the following years, was very important.

12.7 War and Big Science

Germany and Japan focused more on quality than quantity due to limited production capacity, which led to a competition on developing better tanks between US, USSR and Germany. Huge focus on developing new innovations with little financial barriers. The discoveries were key to the **Third IR** and the process of globalization of the end of the 20th century (electronic flight control instruments, reaction engine and radar being developed further, groundwork for spatial exploration...). Other innovations that have become useful to **the civilian sector** include:

- Chemical and pharmaceutical progress
- Energy, especially nuclear
- Electronics, communication and computers

13 PROSPERITY AT LAST

13.1 Greenhouse with cyclamens

During the Nuremberg trial (1945-1946), Rebecca West noticed that also the country was destroyed, Germans were still dynamic. More generally, the entirety of Europe was recovering incredibly fast and by **1960** had recovered fully and was growing quickly. This economic miracle was the result of many smaller miracles at the level of single, national economies, aided by the US post war aid policies, mixed economies, Keynesian economics, and the economic integration of the 60s

13.2 Europe Destroyed

70-85 M deaths, up to 15% of the population in some countries, 30M deported. Industrial capital had been destroyed: **20%** of industrial investments were useless in the Axis and **70%** of industrial plants have been destroyed or damaged in the USSR. International trade had collapsed, and transport infrastructure was severely damaged. Japan was occupied by the US until 1952 and aided by the US. Tensions between the US and USSR quickly grew (1946-1947) and two blocks formed. between 1947 and 1951, the growth of **GDP** and industrial output was double or treble figures. Increase in trade, increase in labor productivity and improvements in living conditions. The recovery aimed at being:

- Quick



- Continental, to avoid fragmentation
- Focused on manufacturing and industry

However, Europe needed massive amounts of things which it could not afford. It thus relied on the US providing financial aid. Between 1948 and 1951, **the Marshall plan**. European Recovery Program gave massive amounts of aid to Europe, mostly in the form of machinery and raw materials needed for industrialization. These goods were paid in devalued local currency, and the money was accumulated in counterpart funds which mostly remained accessible to the local government. France and the GB benefited the most, alongside Italy and West Germany. The plan reestablished the leadership of the US, reaffirmed the return of capitalism and Communist parties lost support where it was enacted. Initiatives to transfer knowledge from American to European managers and entrepreneurs through educational visits played a fundamental role in modernizing the approach to organization and the approach to strategy, technology and commerce. The program was widely successful when it ended in **1952**

13.3 Trade and International Agreements

Revival of trade Europe. **1947**: Creation of the Committee for European Economic Cooperation, which quickly became the Organization for European Economic Cooperation. Removal of trade barriers for coal and steel. **1951**: European Coal and Steel Community to regulate the European market of these two industries. Negotiations to reduce tariffs lead in 1947 to the General Agreement on Tariffs and Trade. By 1950, many Western capitalist economies had joined it.

Other components of the new system: 1944, the IMF (tasked with supporting the regime of fixed exchange rates against the US\$ or gold) and World Bank (initially financed countries engaged in reconstruction). International trade developed but mostly regionally rather than through re-globalization: **1948**: Comecon to facilitate trade between members of the communist bloc, whose prices established out of the market was problematic with international trade. **1958**: EU founded by BENELUXFRITAL, with the aim of removing restrictions on free circulation of goods, people and capital within the EU. It was completed in 1992.

13.4 Mixed Economy, Nationalization and Development Policies

International trade picked up again and the success of planned economies showed Europe the benefits that intervention from the State could have. State companies and nationalized natural monopolies were plenty, especially in capital intensive or highly advanced sector. Creation of a welfare system in almost every country. European capitalism was marked by the presence of big companies controlled fully or in part by the state alongside a vast private sector and by the tendency to redistribute benefits from industrialization through welfare policies.

13.5 Miracles, Miracles

between 1953 and 1970: tremendous growth of GDP in WE and especially in Japan.. Increase in productivity, disposable income and private consumption. Consumerism spread with an increasing number of cars, radio sets, roads, telephones... Communist bloc did not fall behind and the GDP grew even more than in the West. By the start of



the 1970s, the countries had returned to good levels of competitiveness.

14 DECOLONIZATION: LIGHTS AND (MANY) SHADOWS

14.1 Rich and Poor

The prosperity led to a convergence between the US and other countries in terms of tech, productivity and lifestyle (**Americanization**). However, it also widened the gap between recovering countries and poor countries.

14.2 The Nature of Underdevelopment

Cause of underdevelopment: Heavy reliance on primary sector, often subsistence level. They had benefited during the war of the need for food, but it was no longer the case. Agriculture was also unreliable due to weather and international market. **Underdeveloped** countries had a huge increase in population due to Western aid to fight disease and poverty. Demographic pressure worsened the conditions.

14.3 Decolonization

WWII was fought in the dominions as well as in the mainland. Growing independence and anti-colonial movements often culminated in open revolt. Japan during the war exposed European colonizers and attempts to create new countries. Post-war, the US opposed colonialism in Asia as it favored commies. **October 1956**: The Suez crisis marked the end of colonialism in Africa.

14.4 Political Instability

Problems for newly independent countries: Reliance of domestic consumption and foreign trade on an unreliable sector, the backwardness of the manufacturing sector high levels of demographic pressure, poverty, lack of human capital, lack of a true ruling class and almost everywhere military dictatorships emerged. USSR and US offered aid to obtain other countries to their side.

1955: Bandung summit attended by 29 African and Asian nations with the aim to promote cooperation and promoted the idea of non-alignment. The official movement was formed in Belgrade in 1961.

14.5 Asian Destinies

Both India and China had fallen from being world leaders in the pre-industrial period to extremely poor due to respectively colonialism and Opium wars/Japanese invasion. 1947: Indian Independence 1949: **End of Chinese Civil War**. Both governments had invasive economic interventions and central coordination of economic stakeholders.

The CCP began collectivization in 1953, with a five-year plan, aided materially by the USSR. It was initially very successful: industrial output doubled, and agricultural production increased. 1958: **The Great Leap Forward** was a huge failure that resulted in famine and Chinese GDP in the 70s was negative.

India used a similar approach. 1951: First Five-Year plan targeting the primary sector. **1956**: Second Five-Year plan, creation of a mixed economy with fundamental sectors (energy utilities, transport, steel...) being put under public control with the private



sector having only a little liberty. Overall, the impact was not that great. Not the case everywhere though: In 1955, South Korea and Taiwan overtook China and India per capita, by 1970 they were three times richer and 4.5 times richer by 1980.

15 FROM KEYNES TO NEOLIBERALISM

15.1 The end of Keynesian Economics

At the end of the 70s, 50 of the 500 biggest companies were state controlled. It was then that Thatcher opted for privatization of many them, followed by other Western nations. This was a radical shift in economic thought since the 30s. Why?

15.2 The 1970s Recession

The 70s were a time of recession, with high inflation (often in double digits), stagnating GDP and rising unemployment. US, GB and Italy particularly affected. Two petrol crises in 1973 and 1979 were caused by **OPEC**. The attempts at devaluating money to recover led to the end of fixed exchange rates. The first to argue against **Keynes** were monetarists who thought the gradual and controlled expansion of money in circulation was an essential element of growth and would increase GDP in the short term and contain inflation in the medium to long term. According to supply-side economists, liberalization would stimulate demand thus containing inflation, reduce unemployment and increase total government revenue. Reduction of fiscal pressure was adopted by Thatcher (1979) and Reagan (1981)

15.3 Retreat of the Public Sector in the West

In Italy, the entrepreneurial activity of the State was systematized in a pyramid in 1956. The State system in Europe was successful when it came to regulating natural monopolies, rationalizing the offer in capital intensive sectors and investment in sectors with lots of R&D. In cases like **Italy**, it was crucial in modernizing numerous sectors. However, the Keynesian model's inability to solve the crisis led to the rediscovery of the "**benefits of the market**" and of the principal generators of wealth, private enterprises. State owned companies destroyed more resources than they created, straining state budgets, although they helped redistribute. Criticism of the privileges of public sector workers and the discovery of corruption and clientelism did not help.

15.4 Privatizations in Europe

1970s-1990s: Privatization in Europe, while the Berlin wall fell in 1989 thus leading to more competition for centrally directed economic systems. Privatizations occurred not only in Europe but also in Latin America and Asia. The British program was the most wide-ranging one, started in 1979. Between 1986 and 1990, France, who had continued nationalizing until the 1980s with socialists, began privatizing again. Italy had the second biggest program.



15.5 Why Privatize, How to Privatize

List of reasons presented: Economic efficiency, structural aspects linked to the efficiency and transparency of financial markets, the State making money from the sales and stopping to lose money to these projects caused by poor management and finally privatization was essential to obtaining full citizenship rights of the EU, which was relevant for countries who signed **the Treaty**

of Maastricht in 1993. The last decade saw massive privatizations in transition economies (Czech Republic, Latvia, Estonia...)

Three methods used:

- Public offers (GB)
- Privatization with a hard core of stable shareholders while the rest of the company was put on the market, with golden shares enabling to veto shareholder decisions (France)
- System of vouchers convertible into shares to create a group of shareholders in the population and kickstart financial markets (Successful in the Baltic, failed elsewhere). For example in Russia it led to the concentration of wealth amongst a few individuals under Boris Yeltsin's government.

15.6 Privatization and Development

During the 1990s, developing economies began privatizing in fundamental sectors (Argentina, Mexico, Brazil, India, China, Russia...). **Foreign investments** were as important as domestic ones and played a huge role in the modernization and convergence of marginal economies. Overall, no consensus yet but it seemed like it was slightly beneficial in terms of efficiency and opportunities of development and tech modernization for backwards countries.

16 THIRD WORLD, "THIRD WOLDS"

16.1 Fragmentation of the Third world

In the mid-60s, only Japan and Hong Kong were above average in terms of per capita income. **Hong Kong:** Commercial port city owned by GB, Japan: Reactivating its productive system supported by large integrated companies (*keiretsu*) and small supplier businesses. In 1975, Singapore joins HK Japan while the West is in crisis. **1985:** Taiwan and SK join the gang. Meanwhile other countries in the area stagnated or had low growth rates.

16.2 A Legacy of the Past

In some places growth stayed low, especially in Africa, despite transfer of resources and knowhow from Europe through colonization. Things were different elsewhere though. Central and South Americans benefited from immigration of Europeans that brought experience about manufacturing and willing to set up their own businesses. In Asia,



knowledge was transferred through migration, via the colonial legacy and from **Europe/Japan**. Foreign businesses also chose to invest in those countries, attracted by promising consumer markets. Some countries were able to use this as a launchpad while other remained reliant on foreigners. **Overall**: Very broad differences in the Third World. We can still make a basic classification with countries with past manufacturing experience that successfully industrialized, those that didn't, and those that did not have any past experience and seemed to be doomed to stagnation.

16.3 The disadvantages of the Latecomers

The difference between developing and developed countries was huge. Accumulation from labor intensive domains with low salaries and primary sector were not sufficient and not sustainable in the medium- to long-run due to **rising salaries**. Same went for devaluation as it eventually generates instability, affecting imports and living conditions. Furthermore, foreign investors had little reason to invest there apart from natural resources or cheap labor. While in the **19th century** some countries managed to catch up to GB, the tech gap was now too wide for it to be possible. Two explanations for countries that did it successfully:

- Sectors with a leading role
- Peculiar forms of company

16.4 Sectors and Companies

Amsden and Hikino: One common feature is a deliberate and definite concentration on mature or technologically "average" sectors. The goal was achieving and maintaining a leadership position without excessively specialized human capital. Sectors such as cars, semi-conductors, basic chemicals, electronic consumer goods... These companies tried to gain an advantage through

increased output efficiency of organization and production. This requires large companies with economies of scale. They, however, had unique strategies. First off, a high degree of diversification because of the risks associated with a single activity without exclusive control of the tech, the small domestic market and the ease of acquiring production technologies. The organization structure was also unique, the main one being **the "group"**, inspired from Japan, a legal unit on which other legal unit depend through share ownerships, under the control of a family in general and with privileged relations to political authority. Almost all groups had a trading company, aimed at connecting with international markets.

16.5 Developmental States

Developmental state: the idea that state initiatives have a direct and important role in creating conditions for private companies. In latecomers, they shared strategic functions aimed at increasing the efficiency of the manufacturing sector, notably through the creation of an efficient banking system. New development banks in Asia and South America were the principal channels, with medium- and long-term credit at low interest rate and bank ownership of shares, which helped them encourage **organizational efficiency**.



There was a strong need for a good commercial balance to accumulate foreign currency reserves to finance development in new sectors. In return for the credit, the banks required standards in technology, strategic aims and international competition. One of the biggest targets. **70s:** Taiwanese government subsidized companies based on high quantity of exports and allowed domestic sales only to companies with sufficiently high exports. Other methods include fiscal incentives and price control in base sectors.

17 THE END OF A GREAT DREAM

17.1 A Crisis with Deep Roots

While the first half of the 70s were hard on almost everyone, USSR seemed unaffected. Data indicated that it did not present the cyclical nature of Western economies. However, its growth had slowed down and many other issues (low quality of goods, difficulty accessing, worsening of physical and mental problems...)

Krushchev opened up towards private consumption, which spread amongst Eastern bloc countries during the late 60. The planned economy was unable to produce intensive development through intervention.

Centralized planning increased in complexity and bureaucracy was massive. Concentration on the military was too high. **Kosygin's** reforms in the 60s only led to more decentralization. Due to control over prices and supply, there is a limited way of measuring profit and offered limited ways to improve the company.

USSR made foreign currency through petrol sales, however production stopped growing as much at the end of the 70s. The switch to natural gas required exporting to the West to overcome the tech constraints.

Falling birth rates in the 80s were due to abortions and the population was unable to reproduce itself.

17.2 Gorbachev's impossible dream

1985: Gorbachev elected head of the Communist Party, at a time of general discontentment. Gorbachev aimed at reviving socialism with a human face.

1987: Reforms aimed at transitioning towards a democratic system and a combination of central planning and self-organization. This was known as **perestroika** (restructuring). However low growth rates, falling private consumption and inflation discredited his plans. He was also hit by disasters (Chernobyl, earthquakes in Central Asia and Armenia, a series of bad harvests and a fall in the price of petrol) Wins of nationalistic independence movements in the Baltic States also weakened him. In August 1991, the State Committee on the State of Emergency tried to depose him. Crowds supported **Boris Yeltsin**, who suspended Party activists and dismantled the KGB. Soon afterwards, the USSR was dissolved.



17.3 The Difficult Return to the market economy

Yeltsin faced four absolute priorities:

- Structuring a democratic state with a constitution ad based on free elections
- Creation of a market, which required fiscal and monetary stability
- Leading privatization
- Creating a new legal system

October 1991: Economic reforms, inspired by the Polish's shock therapy but it failed as the situation was too bad. 20% deficit, little gold reserves, industrial output plummeted, 3000% inflation

rate, severe fall in GDP. The Soviet CB was replaced by one for each former republic, but only the Russian one could print money. Inflation appeared under control in July 1992 but soared again in autumn. Gaidar was fired in 1993 and inflation was controlled by 1997. Privatization policy launched in 1992 and 150 M Russians receive vouchers to participate in the IPOs, open only to Russians. The biggest privatization happened after the government took on credit backed by shares in industry that it did not repay. The problem is that the banks themselves managed the auctions and sold shares at an extremely low price and created a new class of oligarchs. These had three origins:

- Former high level party officials
- Managers of big companies with connections to political power
- Figures connected to the criminal activities that appeared after the fall of the USSR

Kotkin: Russia became a democracy without liberalism

Russia re-formed itself around the energy industry. The GDP grew until a crisis due to an attack on the trouble in 1997-1998, that led to loss of foreign currency reserves, the collapse of the Moscow SE ⇒ The government devalued the trouble and declared debt default

17.4 Towards a New State Capitalism

From 1999-2001, the economy grew significantly before settling to lower, but still high rates until the 2007 crisis. **Putin's** success was:

- Redefining the relationship between the State and oligarchs
- New fiscal system to reduce corruption

His political support enabled him to treat oligarchs like other businessmen, and those that criticized him had to flee the country or be imprisoned.

Domestic demand was quite high in the early 21st century but they still relied on exports for raw materials. Light manufacturing suffered of the "**Dutch disease**" in which international competition makes it impossible to stay dominant when devaluation ⇒ downscaling and importing light industrial goods from China.

Government influence in the private sector is increasingly powerful, especially in the energy sector.



Russia was only affected by the crisis in 2009. In 2014, the trouble began to fall along with petrol prices, inflation grew, and the devaluation affected the foreign debt, especially of companies.

January 2012: New privatization program, with the government now focusing more on high tech and on attracting foreign capital. Sanctions on Russia for supporting pro-Russian rebels in Ukraine led to contraction of the economy but increased revenue for Russian companies.

At PPA, in 22 years, the US to Russian GDP went from 14:1 to 4.9:1.

18 UNSTABLE LEADERSHIP

18.1 Reagan's America

The stagflation of the 70s led to more unemployment, falling profits and stagnation of earned income. **1980:** Reagan elected. 1981: Beginning of supply-side economics:

- Tax cuts for middle to high incomes and companies
- reduced spending on social services
- Less intervention in the labor market

The cuts in social spending were used in the military for a more assertive containment strategy of the USSR and to maintain the **Keynesian effect**. Results were disappointing and the deficit rose. The appreciation of the dollar, helped by the Fed's rigorous monetary policy enabled them to take full advantage of lower costs of low prices of raw materials in the early 80s. Unemployment grew until 1983 to 10% before dropping to 6% and inflation was under control. However, GDP growth was low (3%) and **Wall Street** lost a quarter of its value in October 1987. Some speculated this was the decline of the USA. Tensions between the US and Japan grew as they competed for industrial leadership, for example through semi-conductors. The US trade deficit sharply grew, which the US blamed on the undervalued yen

18.2 Japan's Lost Challenge

The Plaza Accord allowed the US to depreciate the dollar against the yen, leading to a slight contraction in Japanese exports ⇒ Japanese expansive monetary policy. Japan was able to buy some of the USA's biggest symbols (Columbia Pictures, Firestone). Japanese GDP in the 80s grew faster

than the American, injections of liquidity made Japanese companies more competitive through more fixed investments. **Tokyo** has become one of the most dynamic financial markets. However, a bubble formed around the property. The SE at the end of 1990 despite raising interest rates, and so did the property market in 1991 ⇒ Series of bankruptcy of banks ⇒ difficulties and bankruptcies for small and medium companies. Big companies focused on their core business, which meant eliminating entire sectors in some **keiretsu**. This was the start of the lost decade of the 90s, where GDP growth was around 0% and inflation was close to it, before becoming negative between 1999-2003. The government had to raise taxes to finance the growing population of Japan and only launched expansive policies in the second part of the decade. Deficit and debt grew but failed to have much impact.



18.3 The recovery of the US

After the **Gulf War** (1990-1991) the US grew faster than any other G7 state. Its massive losses in jobs in the public sector were more than compensated by gains in the private one. Under Bush's presidency, growth remained slow as he kept up with the same policies as Reagan but with more challenges (see p.277 i don't get it honestly).

1993: Clinton elected but no return to welfarism as union participation had sharply eroded. He aimed at modernizing America as well as some social reforms (healthcare, education, putting

some protected categories of work...). The debt inherited was problematic and the interest rates were already low.

He got re-elected due to two successful last years.

From 1996: Massive investments in high tech and computing grew the divide between the US and European companies. The deficit disappeared in 1997. The Dow Jones grew massively before crashing in 2001.

18.4 China in the Global Economy

9/11 ⇒ Economic and monetary intervention domestically, political and military intervention in Afghanistan and Iraq. WS climbed back up in December. China joined the WTO in December

2001. By 2012, China was the number one exporter worldwide after constant high growth since Den Xiaoping's reforms in 1978.

Reforms included: New land management, closure of collective farms (1983), creation of township and village enterprises, partial liberalization of prices, creation of four state banks.

1979: Special Economic Zones to attract investors and one-child policy. 1980: World Bank joined and state companies are allowed to keep a share of their profits for bonuses and investments. BOC became the CB.

Concerns about the change of direction led to tensions that ended in repression on Tiananmen Square in 1989. The fall of the USSR made reforms easier. Policy to reduce the number of jobs in state-owned companies was enacted, new forms of companies were introduced and state-owned enterprises became public or private companies that even foreigners could invest into. **1997:** Dien dies and the CCP limits government influence to a few sectors. China was barely affected by the 2008-2009 crisis.

China had become the workshop of the world and used its trade surplus to buy US Treasury bonds. It still had many weaknesses: Future property bubble, higher public debt and unemployment than officially announced, a weak financial system...

Another wave of liberalization was done in 2013, with revocation of privileges of SOE and allowing the Chinese currency to fluctuate

The Shanghai SE dropped severely in July and August 2015, eventually saved by the Chinese government. As of today, the Chinese economy is composed of multiple trillion dollars

subeconomies, some thriving and others gravely failing.



19 EUROPE IN SEARCH OF AN IDENTITY

19.1 The end of the Cold War and German Reunification

Single European Act (1986): European countries wanting to move towards, 1992: Maastricht Treaty despite opposition.

1992-1993: UK and Italy hit by a financial crisis due to foreign speculation and forced to devalue shortly after accepting on a range for exchange rates. Spain and Portugal were in the same situation a few months later.

19.2 The terms imposed by the Treaty of Maastricht

The European Monetary Institute was created in 1994 to achieve economic convergence and five criteria were defined to enter the Economic and Monetary Union:

- An inflation rates no higher than 250% of the average of the three lowest
- A deficit lower than 3% of GDP
- A stable exchange rate for at least two years
- Stable interest rates
- A national debt lower than 60% of GDP or with a substantial and continuous reduction

Problems that arose: the unification of Germany was way more expensive than expected, France could not present itself as a true alternative to Germany and Italy was in a political and institutional crisis. The single market (1993) offered new opportunities but did not strengthen Europe as much as it had been hoped. Mega mergers occurred, especially in telecommunications, pharmacy and finance.

A Danish referendum in 1992 opposed itself to joining the treaty.

19.3 Arrival of the Euro

In 1998, 11 countries met the criteria and wanted to go in, 2 did but didn't (UK and Denmark) and two didn't but did (Greece and Sweden). **January 1999:** The euro replaces the ecu before coming into use in 2002 ⇒ Successful from a monetary POV but not fiscal. The two biggest weaknesses were the lack of a common fiscal policy and an excessive quantity of loans between banks. The shift to the Euro led to a big increase in prices of symbolic products, with an initial tide of distrust. 2004: Ten Central and Eastern European countries join the EU.

Investments were attracted by cheap, well-educated labor supply. **2003:** Schröder reforms the German labor market. They represented a turning point by becoming more flexible through schedules adapted to market needs, mini jobs and limits on welfare spending. Germany even became the world's greatest exporter between 2005 and 2009. Many saw this as a destabilizing factor for the continent.

19.4 The origins of the European Crisis

Low interest rates in Spain led to a property bubble. Overall, higher investments in Southern Europe. By 2008, a significant share of national debt of countries like Spain, Portugal, Greece and Italy was in foreign hands.



A second aspect is the emergence of huge corporations with mergers. Financial organizations became very strong but regulations were inconsistent.

The crisis hit Europe in 2008, leading to distrust in Europe and division between the North and South. Ireland and Spain first, then Portugal & Italy (who was not too at risk due to high number of assets, saving rates and debt largely owned by Italian citizens). 2009: Greece begins to be unable to meet debt obligations, when German, French and British banks were strongly linked to it. Spain and Italy refused IMF funds. In October 2008, Germany had refused to participate in a bailout, scared that France would use it to pay off its own debts. In 2012, the ECB announced it would do "**whatever it takes**" to keep the euro, which diverged from the Bundesbank's policy. It seemed like national fiscal policies compensated for lack of monetary policy, but the contradiction of a currency not backed by a state remained unresolved.

Although debt reduction is seen as a medium to long term process, it had extremely negative social and political consequences: Rise of unemployment, social and economic inequalities worsened and clichés about southern countries

June 2016: UK referendum on Brexit. Implosion seems possible now but the mindset also revolves more around building a better Europe than leaving.

20 THE GLOBALIZED WORLD

20.1 BRICS

Emerging countries contribute more and more to the global economy. China became the biggest exporter and is a key partner for countless countries. It joining the **WTO** in 2001 was a clear boost to its exports. **BRICS** all meet annually since 2010 after G20 in 2009 failed to properly address the crisis. BRICS created a bank (New Development Bank BRICS) to enable transaction between member states in 2014.

From 2013 onwards, signs started to show the weakness of the BRICS:

- **China**: slowing growth, low domestic consumption, fast rising wages
- **Russia**: Low then negative growth, worsened in 2014 by Western Sanctions and lower price of petrol
- Falling growth rate, Roussef impeached
- **India**: Poor infrastructure. Modi opted for progressively removing constraints on private enterprise

22.2 The Success of the Market and State Intervention in Asia

Post WWII, SK was a poor country, but it was successful by the 60s through:

- Priority to structural factors, especially education and healthcare
- Leading role of technocrats
- An authoritarian government within a democratic structure
- Protectionist policies
- Massive corporations, the *chaebol*

This enabled a successful process of industrialization in mature sectors: cars, steel, shipbuilding and chemicals before acquiring advanced tech. Liberalization in the 80s. It



couldn't do anything about the *chaebol*. It also withstood the 1997-1998 Asian crisis quite well.

Singapore: Acquired wealth through openness to outside investments and state intervention, controls one of the most important parts in the world

20.2 The Commodities Boom and Development of South-South Economic Relations

China has become the first consumer of raw materials, and this combined with the other BRICs explains the boom of the commodity market in the **early 2000s**. The Chinese government has accompanied operations in Asia, Africa and South America in order to acquire raw materials. This often means building or improving infrastructure, as well as selling them cheap Chinese goods that even they can afford.

Africa is increasingly globalizing, with a high GDP growth rate and development of foreign trade, especially south-south. However, most goods exports are unprocessed (low added value)

Both the US and China are trying to protect their interest:

Transatlantic Trade and Investment Partnership is a project for a NA and Europe free trade area. Weakened by GB's exit from the EU, that reinforced France and Germany who are not the biggest fans of the US. Donald Trump's election seems to have ended the project. The other trade agreement (Trans-Pacific Partnership) that includes 12 countries, that **Trump** withdrew from.

China: 2014 Asian Infrastructure Investment Bank joined by sixty countries. It also has the One Belt One Road strategic plan that includes the Silk Road Economic Belt and the 21st Century Maritime Silk Road. The bank will provide finance for new infrastructures and for industrial and financial cooperation projects to exploit resources, first off in Central and SE Asia.

21 A DIFFERENT KIND OF CRISIS?

21.1 The Origins of the Financial Crisis

It began in 2007 with a bubble in the property market in the US. It initially seemed to only impact the US mortgage market, where many low earners were unable to pay their mortgages when interest rose. **The causes:** Following the rise in petrol price, the amount of capital in circulation increased., the use of petrodollars to fund developing countries led to debt crises in the early 80s and 90s. The international financial system had to create new instruments to allocate the huge masses of money: total financial assets were worth 12 trillions in 1980 and 196 in 2007, with a relative increase in the amount managed by institutional investors.

US banks began to be affected in July 2007, interest rates diminished in September.

2008: Fannie Mae and Freddie Mac, two mortgage providers failed, followed by Lehman Brothers (huge IB) and Merrill Lynch was taken over by BOA. New causes started revealing themselves, such as the Chinese government buying so many bonds that they lowered the interest rates. European banks then borrowed from US banks and used it to buy unstable equities. Money was lent to people with a poor financial history and packaged with low-risk financial products. Prices of housing dropped in 2006. These risky financial products were used to secure other securities and overvalued due to rating agencies being paid.

21.2 Bailing out the Banking System



Goldman Sachs and Morgan Stanley stopped working as IB and began being pure commercial banks. 2008: **TARP** is signed, a rescue plan of around 700 billion for the banking sector, quickly followed by the British government nationalizing Bradford & Bingley, recapitalizing Bank of Scotland and announcing a 500 billion package, Ireland announced it would guarantee deposits for two years, France and BELUX bailed out Dexia and Germany Hypo Real Estate. The US government later decided to invest in AIG as it was too big to fail.

In the following weeks/months, the crisis hit Stock exchanges. At the beginning of Obama's presidency, numerous bipartisan measures were taken, with interventions of the Fed and the government rescuing Citigroup, the biggest US bank.

Consolidation of the banking sector was entrusted to **the Public-Private Investment Program for Legacy Assets** (PPIP) in 2009, accompanied by the American Recovery and Reinvestment Act (ARRA), worth 831 billion aimed at stimulating the recovery by preserving and creating jobs, invest in infrastructure and stabilize local government. April 2009: Measures for the car industry (GM and Chrysler).

21.3 Uncertainties after the Crisis

A far reaching reorganization of the banking system was done through mergers, with China, Singapore and UAE having bought a lot of shares during the crisis.

The regulatory system was changed: The UK replaced the FSA with two bodies, directly controlled by the Bank of England.

Banks were now a lot bigger than before the crisis. Regulators made rules stricter regarding the ratios for banking work, the work inside banks and the links between banks. The regulators began

having a voice in decision making (conduct regulation vs prudential regulation)

At the global level the **Basel Commission on Banking Supervision** introduced Basel III, an international regulatory framework, based on both micro and macroprudential approaches in order to make the system more resilient and improve risk management.

With an ageing population and low growth, the world might have entered a long phase of stagnation



22 EXTRA STUFF

22.1 Demographic Transition

Occurred in the West in the 19th century and lasted 150 years.

Old regime: High birth and death rates, fluctuating population (positive and preventive checks) with slight upwards trend

19th: falling death rates due to less epidemic diseases, more income and better nutrition yet same **birth rate:** big increase in population (+0,5-1%) ⇒ Population tripled between 1750 and 1914 Modern demographic regime: low birth rates due to the cost of raising children and more birth

control so slow population growth (0,1-0,5%)

22.2 The Industrial Revolution

Since the 70s, the IR is seen less as a great fracture. Studies showed that the increase in fundamental variables in 1800 was not as high nor universal as previously believed. It is now seen as a gradual process

22.3 Workplace Organization

1870s-WWI: Rapid Production growth

Science was directed towards applications in industry. New machines were created to improve the flow of production and to increase productivity (conveyor belt, lifts, hoists...)

The most important factor was the scientific reorganization of the workforce, led by Taylor with his 1911 book *Principles of Scientific Management*

Four Fundamental Principles: Identification of the best methods, selection and training of staff, development of respect and collaboration between management and workers, strict division of tasks between the workers and management. Later **Charles Eugène Bedaux** tried to solve problems arising with the application of Taylorism. The Bedaux System requires lower-cost and lower management effort: Measure the time it takes a worker to do a single task. The quantity of work done in that time was then standardized and used to determine basic rate of pay. This enabled comparisons between the efficiency of departments. However, it did not include anything about organizational methods

Most complete application of Taylor's ideas was done by Henry Ford through the adoption of standardized and synchronized systems (assembly line) which led to mass production

The limit of **mass production** appeared in 1973 (first petrol crisis) although there were signs since the early 60s: fragmentation into different consumer groups made the market unstable and unpredictable, greater competition on a global scale.

End of the 1960s: Diversification ⇒ Lean Production Model in the early 1970s:

- **Just-In-Time:** each component arrives exactly when needed
- **Self-Activation:** Workers can safeguard high quality standards by intervening to eliminate problems on the line
- Small groups of workers to enhance responsibility, quality control and self-managed team-work

This model spread to NA and Europe in the 1980s



22.4 Mass Immigration from Europe

First phase of globalization (1815-1914) involved mass emigration from Europe, especially the UK (linguistic proximity, colonies with mineral deposits and Irish famine (1845-1846)). The first wave of emigration until the 1890s was mostly from **Northern Europe**, whereas the second one came more from Southern Europe.

Causes: **Demographic**: Demographic transition (fall in ordinary mortality, less famines and epidemics and a high birth rate) led to high population growth while technical progress and import of wheat (1870-1890s) led to a congested labor market, especially in the country with less birth control.

People from country with limited industrialization emigrated to more developed countries to do low level work. Some countries (USA for ex) tried to limit emigration from some regions such as Asia then later Europe but still rewarded successful emigrants (Homestead Act)

Political reasons: especially to Uruguay and Argentina. Popular revolts in Europe led some to flee, esp anarchists and socialists. Jews were also forced to leave Russia.

Facilitating factors: Progress in transport tech (steamboats and railroads), emigration network and agents and laws recognizing the right to expatriate and removing barriers to free circulation **Consequences**: Relieved demographic pressure on Europe and enabled host countries to completely colonize their territory as well as build infrastructure. Remittances often represented a significant amount for origin countries. The labor market expanded and wages increased in Europe (still differences between Northern and Southern Eastern Europe though).

22.5 International Monetary Systems

International gold standard (1870-1914): no treaties needed as it was based on custom and habit however both BW system (1944-1971) and European Monetary System (1979) needed formal agreements

Under the GS, only external objectives mattered and not internal. Theoretically, any change in the amount of money in circulation should have a proportional change in the amount of gold stored. Since the economy was growing faster than the monetary aggregate, this created deflationary pressure that led to tariff barriers and trade wars.

1922: Conference of Genoa and return to the gold standard for France, US, GB, Italy... opted for the gold exchange standard, a system based on convertibility of a currency into another one, backed by gold. After the 1929 crisis, everybody abandoned it in the 1930s.

1944: BW system: fixed exchange rates and the creation of a stabilization fund to provide countries with loans to shore up their currencies. Return to a gold exchange standard based on the US\$. The US had to have enough gold to guarantee convertibility and other countries had to guarantee the parity of their currencies. The fixed exchange rate was made more flexible to allow countries to devalue through agreements. Only the US could use monetary policy, the introduction of limits on movements of capital allowed countries to use fiscal policies for their internal goals. Problems: 1) Not possible to increase liquidity unless the Fed increased its reserves. Dollar reserves exceeded those of the Fed \Rightarrow Convertibility not guaranteeably anymore. 2) The dollar



was overvalued compared to gold due to the rapid growth in prices and money supply.
1971: dollar no longer convertible, 1973: **Flexible Exchange system** with fixed exchange rates on a local basis

EMS: 1979, central parity with the German mark and bilateral exchanges for every country. Col- lapsed in 1992 following an exchange crisis

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