



Financial Globalization

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Overview

- Defining globalization
 - Focus on economic aspects
- When did globalization begin?
 - With Columbus?
 - Pre WWI golden era
- The end of globalization
 - Can it happen again?

Globalization

- 20,800,000 hits on Google
- 72,182 items in Amazon books
- *The World is Flat*
 - No it isn't
- *Globalization {n}: The Irrational Fear That Someone in China will Take Your Job*
 - They won't

What does globalization mean?

- A definition
 - Increased interdependence of national economies as a result of freer flows of goods, services, capital and labor
- Measures
 - Ideal: prices of goods, services, etc.
 - Actual: exports, foreign investment, migration

Why history?

- “I have but one lamp by which my feet are guided, and that is the lamp of experience. I know no way of judging of the future but by the past.”
 - Edward Gibbon

Drivers of globalization

- Technology
 - Distance
- Policy
 - Trade barriers (Tariffs, quotas, taxes,...)
 - Capital controls
 - Immigration policy

Technological drivers of globalization

- Water transportation
 - Canals
 - Steamships
- Railroad
 - 1830: Liverpool-Manchester line opens
 - Late nineteenth century: Creation of a national market in the US
- Refrigeration
- Telegraph (“Victorian internet”)

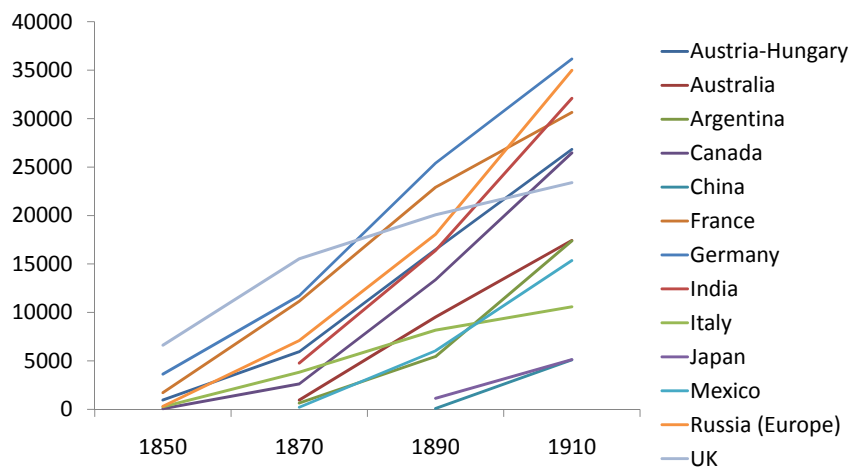
Technology

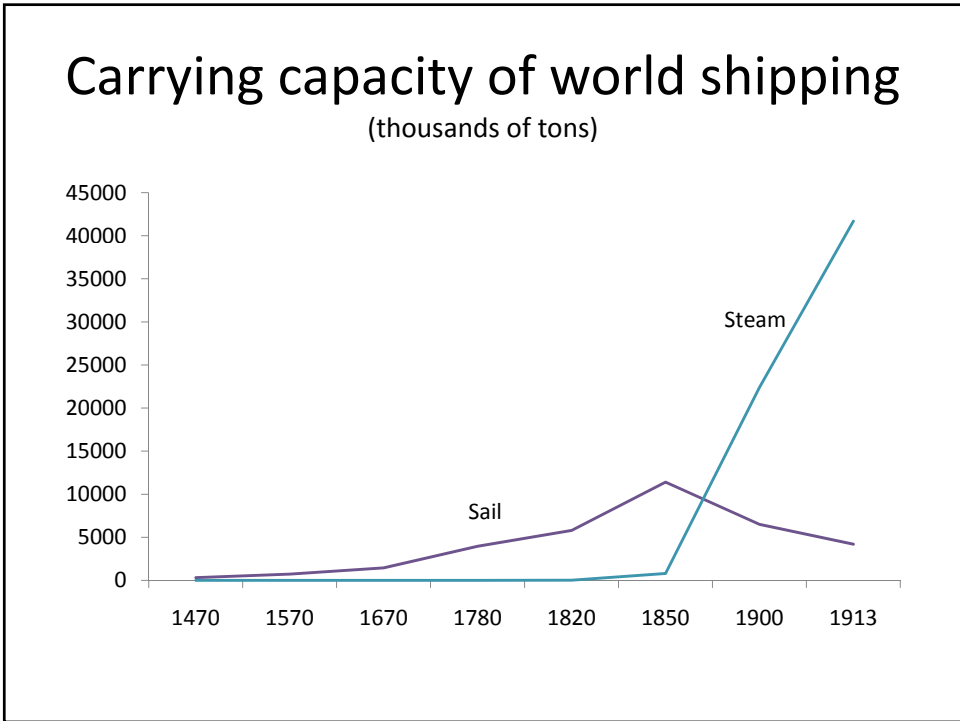
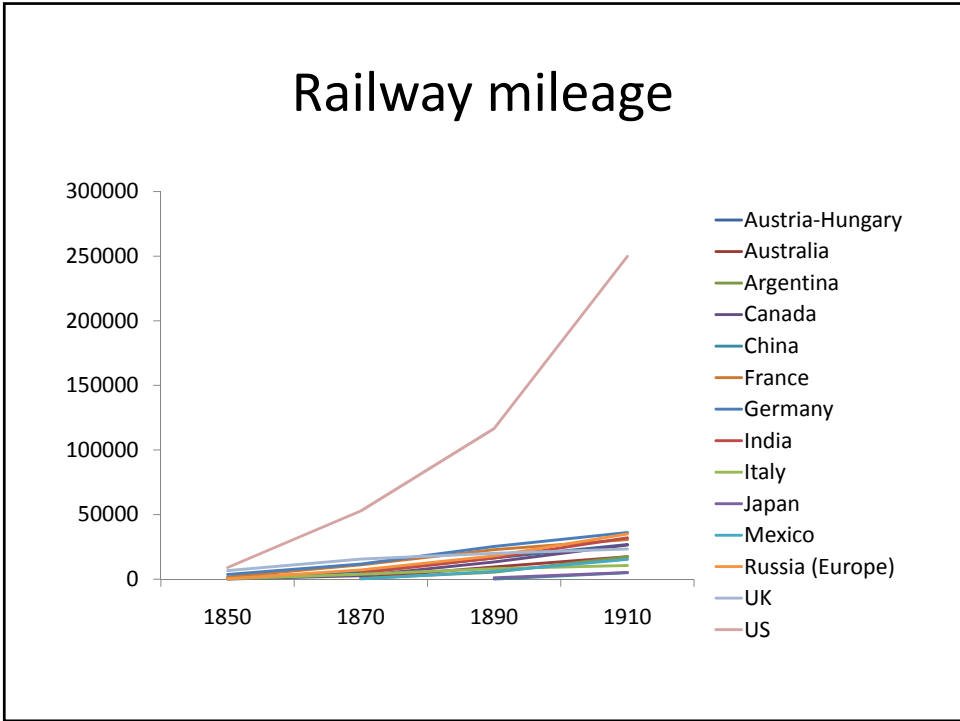


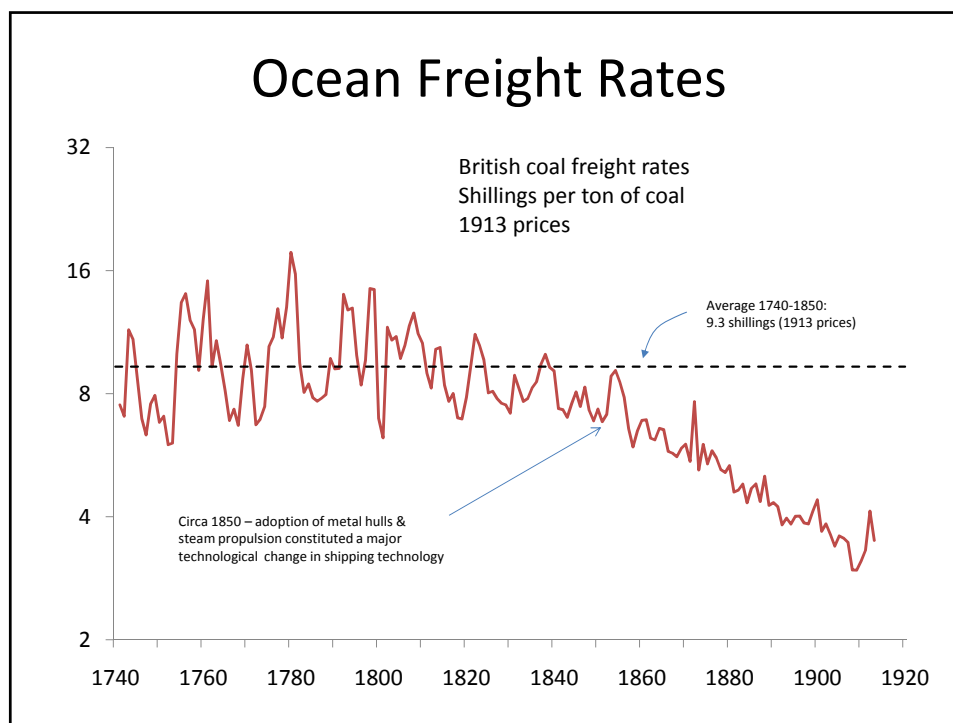
Technology



Railway mileage

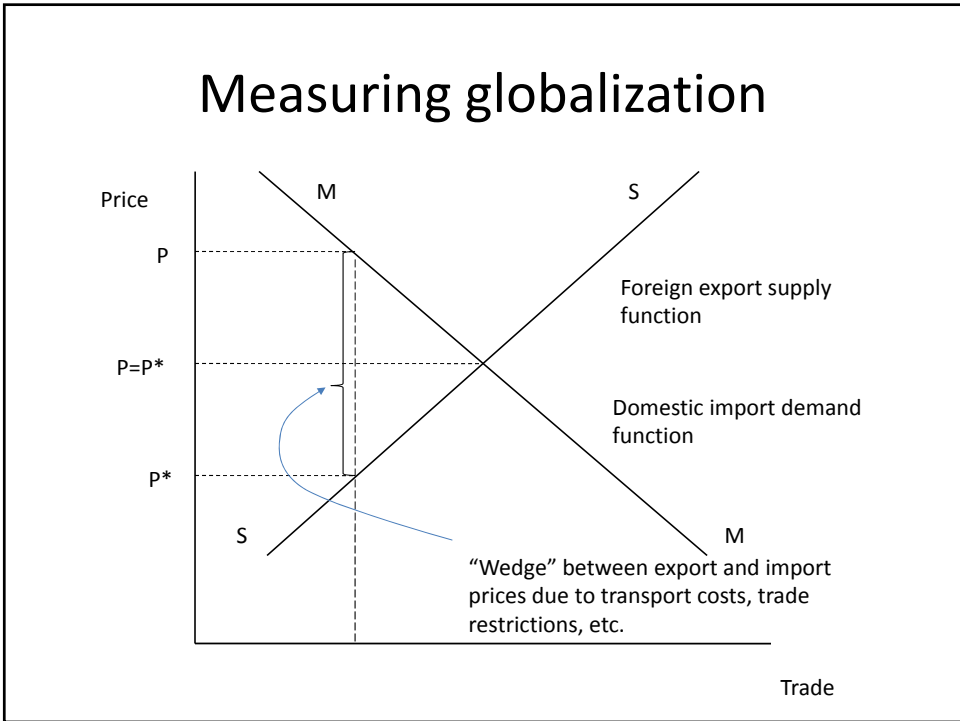
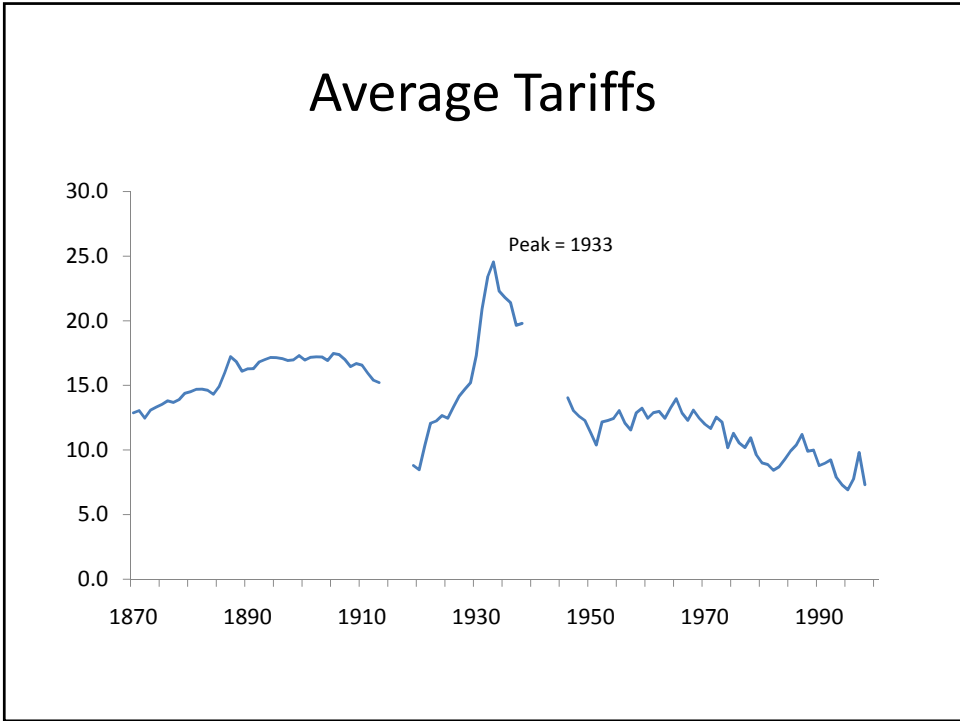


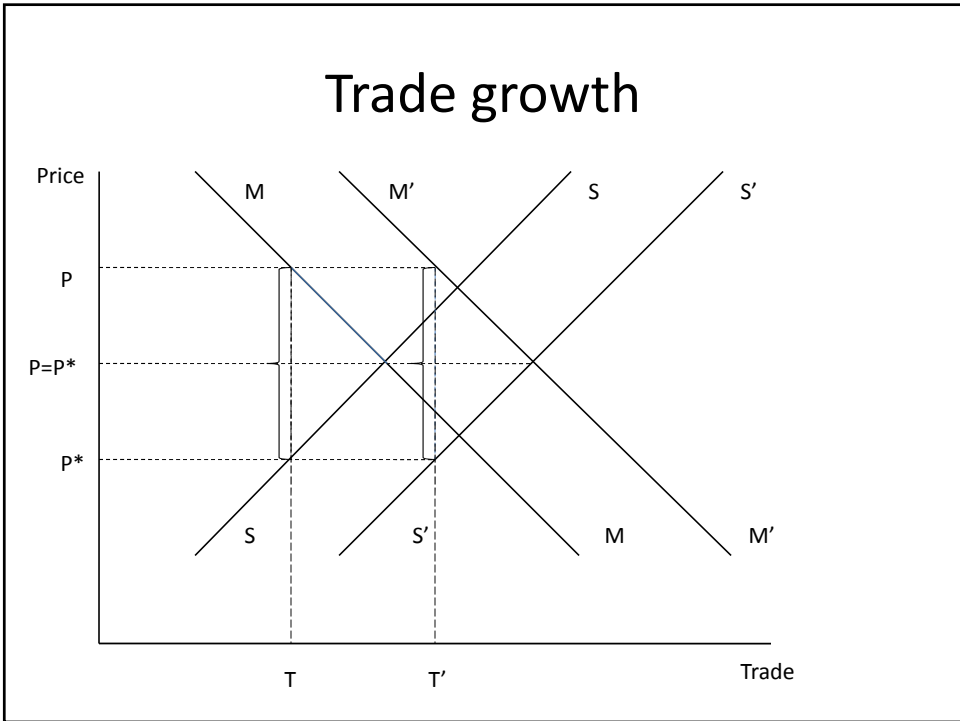
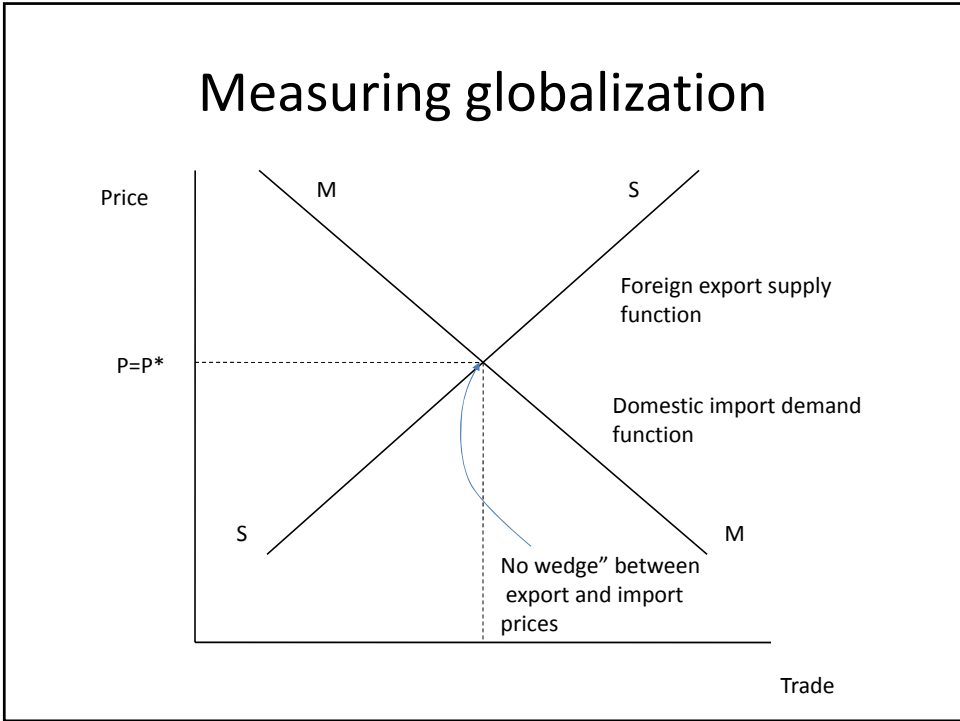




Policy drivers of globalization

- Repeal of the Corn Laws (1846)
- Cobden-Chevalier treaty (1860)
 - Use of most favored nation clause
- Early backlash
 - US
 - Continental Europe



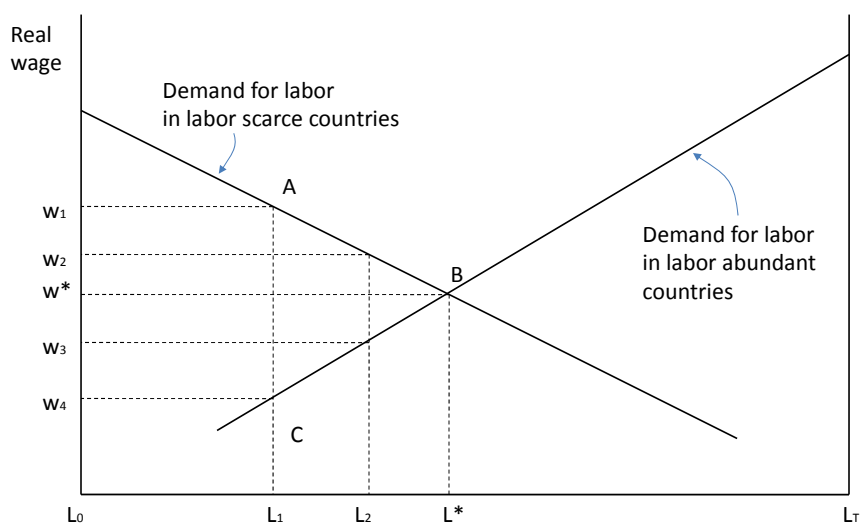


Export Growth

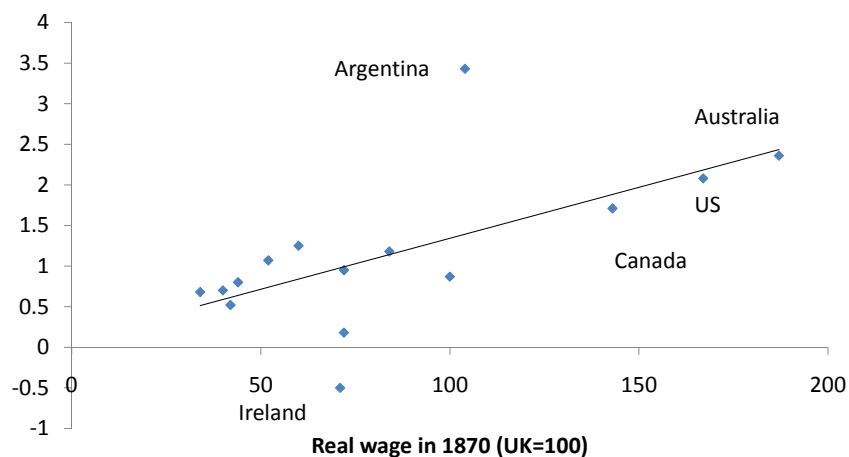
(Merchandise exports as percent of GDP)

	1870	1913	1929	1950
France	4.9	7.8	8.6	7.6
Germany	9.5	16.1	12.8	6.2
Netherlands	17.4	17.3	17.2	12.2
UK	12.2	17.5	13.3	11.3
Spain	3.8	8.1	5.0	3.0
US	2.5	3.7	3.6	3.0
Mexico	3.9	9.1	12.5	3.0
Brazil	12.2	9.8	6.9	3.9
China	0.7	1.7	1.8	2.6
India	2.6	4.6	3.7	2.9
Japan	0.2	2.4	3.5	2.2
World	4.6	7.9	9.0	5.5

The gains from migration



Real wages and population growth



Migration rates

Emigration rates per thousand mean population by decade

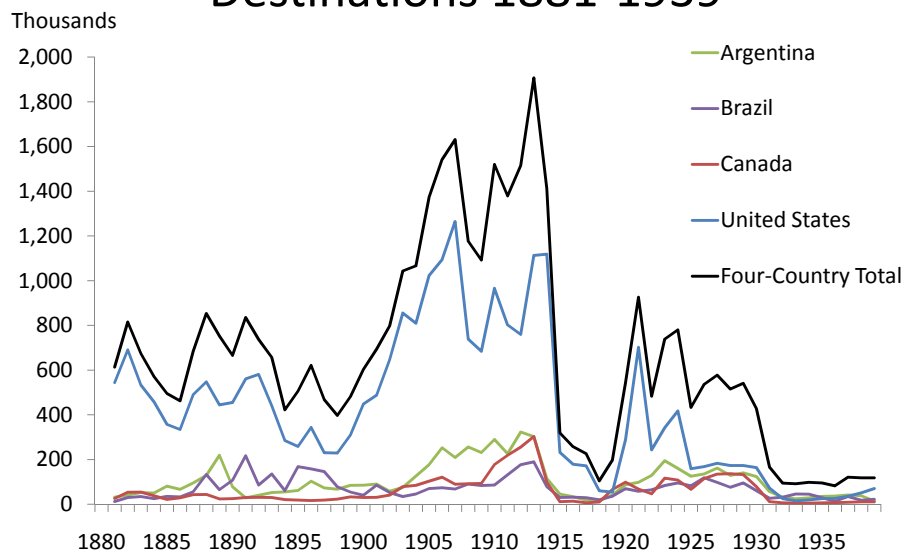
	1850s	1860s	1870s	1880s	1890s	1900s
Austria-Hungary			2.9	10.6	16.1	47.6
Belgium				8.6	3.5	6.1
British Isles	58.0	51.8	50.4	70.2	43.8	65.3
Denmark			20.6	39.4	22.3	28.2
Finland				13.2	23.2	54.5
France	1.1	1.2	1.5	3.1	1.3	1.4
Germany			14.7	28.7	10.1	4.5
Ireland			66.1	141.7	88.5	69.8
Italy			10.5	33.6	50.2	107.7
Netherlands	5.0	5.9	4.6	12.3	5.0	5.1
Norway	24.2	57.6	47.3	95.2	44.9	83.3
Portugal		19.0	28.9	38.0	50.8	56.9
Spain				36.2	43.8	56.6
Sweden	4.6	30.5	23.5	70.1	41.2	42.0
Switzerland			13.0	32.0	14.1	13.9

Migration rates

Immigration rates per thousand mean population by decade

	1850s	1860s	1870s	1880s	1890s	1900s
Argentina	38.5	99.1	117.0	221.7	163.9	291.8
Brazil			20.4	41.1	72.3	33.8
Canada	99.2	83.2	54.8	78.4	48.8	167.6
Cuba						118.4
United States	92.8	64.9	54.6	85.8	53.0	102.0

Immigration to Chief New World Destinations 1881-1939



Some definitions

Definition of Gross
Domestic Product

$$GDP \equiv C + I + G + NX$$

Definition of Gross
National Product

$$\begin{aligned} GNP &\equiv GDP + r^*B \\ &= C + I + G + NX + r^*B \end{aligned}$$

Definition of Current
Account Surplus

$$CA \equiv NX + r^*B$$

Definition of
Gross National Saving

$$S \equiv GNP - C - G$$

Some definitions (contd.)

$$\begin{aligned} GNP &\equiv GDP + r^*B = C + I + G + NX + r^*B \\ \Rightarrow NX &= GNP - C - I - G - r^*B \end{aligned}$$

$$\begin{aligned} CA &\equiv NX + r^*B \\ &= (GNP - C - I - G - r^*B) + r^*B \\ &= (GNP - C - G) - I \\ &= S - I \end{aligned}$$

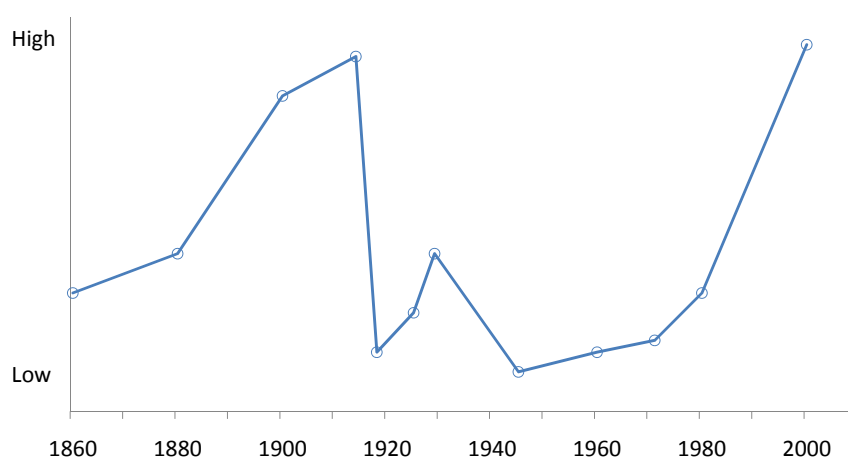
Some definitions (contd.)

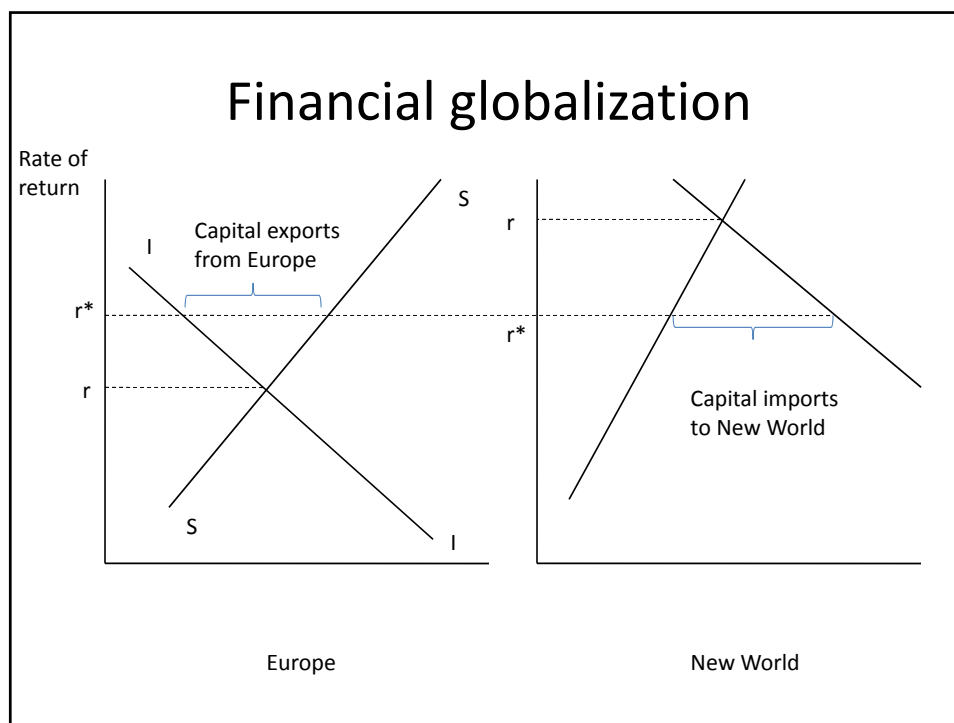
The Balance of Payments $CA + KA \equiv 0$

Evolution of Foreign Assets

$$\begin{aligned}\Delta B_{t+1} &\equiv B_{t+1} - B_t \\ &= -KA_t \\ &= CA_t\end{aligned}$$

Evolution of financial globalization





Distribution of European foreign investment 1913-1914

Destination	Source		
	UK	France	Germany
Russia	2.9	25.1	7.7
Turkey	0.6	7.3	7.7
Other Eastern Europe (inc. Austria-Hungary)	0.7	10.4	20.0
Western Europe periphery	1.3	11.6	7.2
Western Europe core	0.4	3.3	5.5
Europe (not specified)	0.5	3.3	5.1
Total Europe	6.4	61.1	53.2
Asia & Africa	25.9	21.1	12.8
Latin America	20.1	13.3	16.2
North America & Australasia	44.8	4.4	15.7
Other	2.8	0.0	2.1
Total	100	100	100

A Concrete Example



A Concrete Example



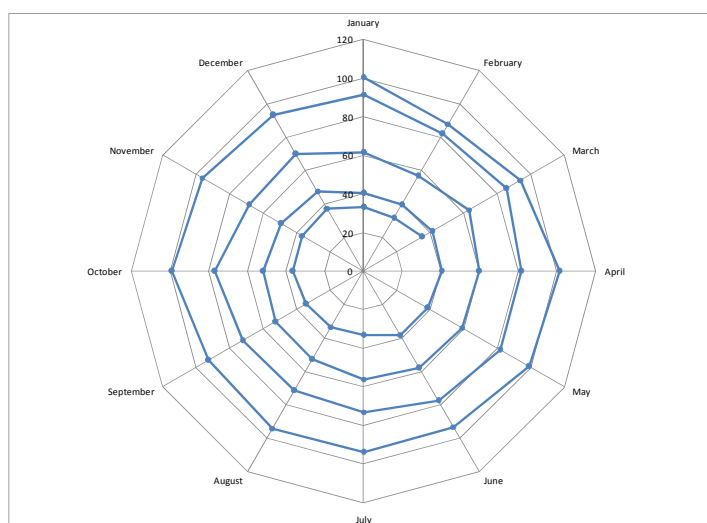
Globalization and history

- Globalization not new
- Keynes
 - “*Internationalization*” of economic life in 1913
 “...normal, certain and permanent, except in the direction of further improvement...”



John Maynard Keynes
1883-1946

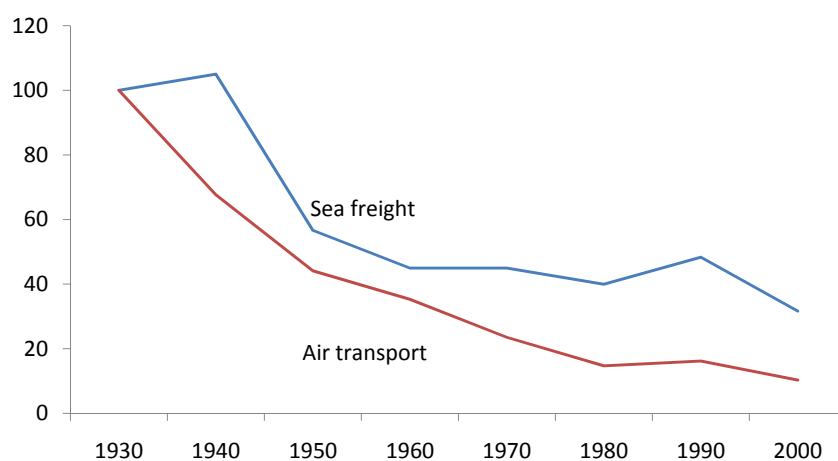
The collapse of global trade 1929-1933

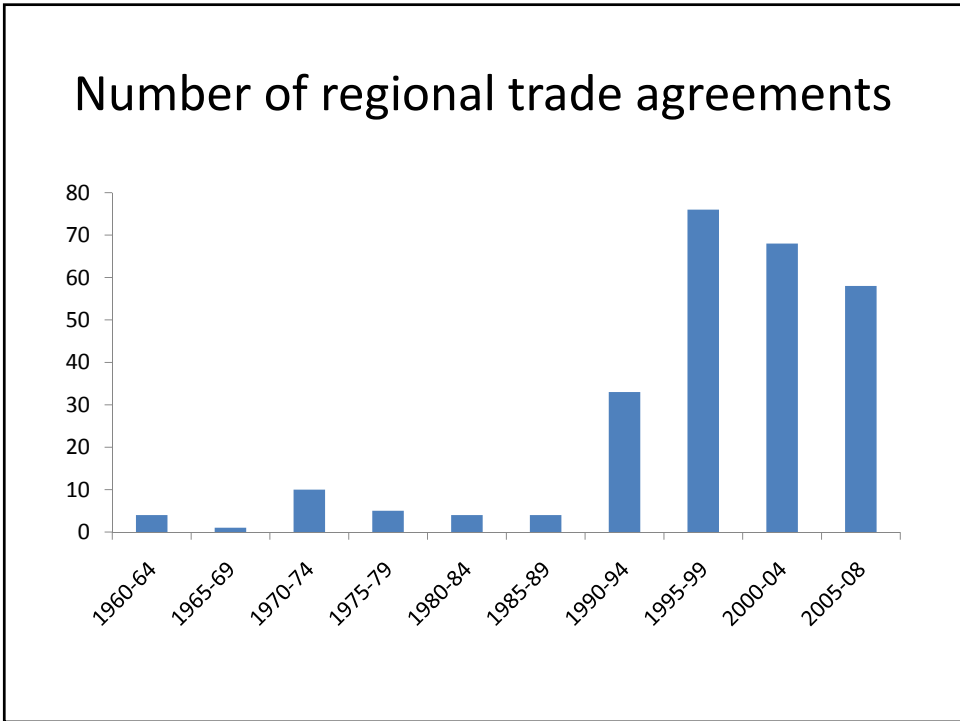
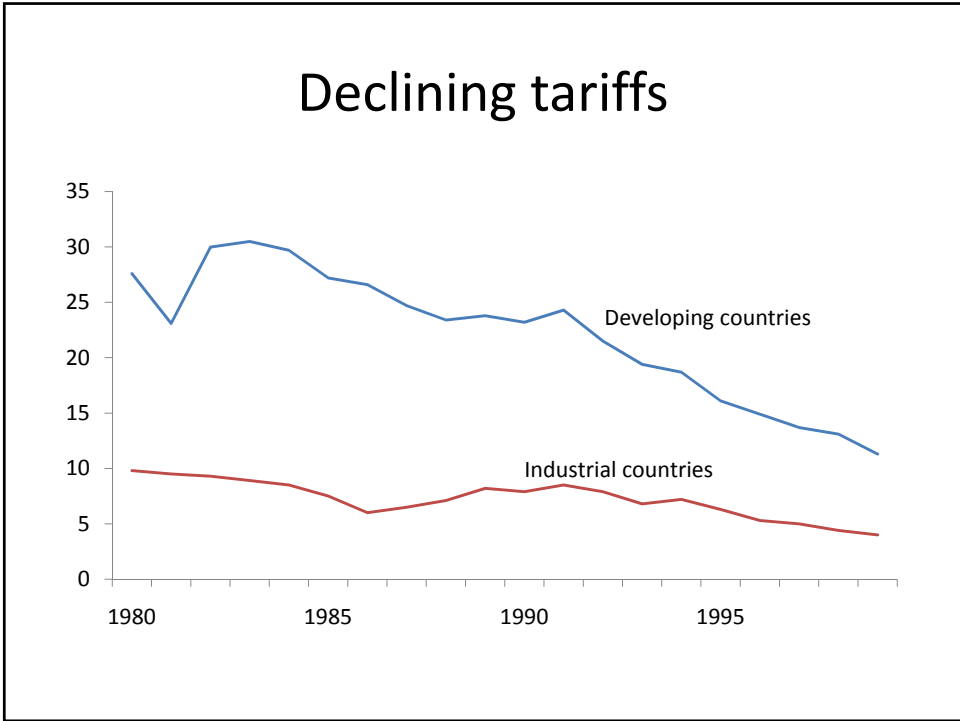


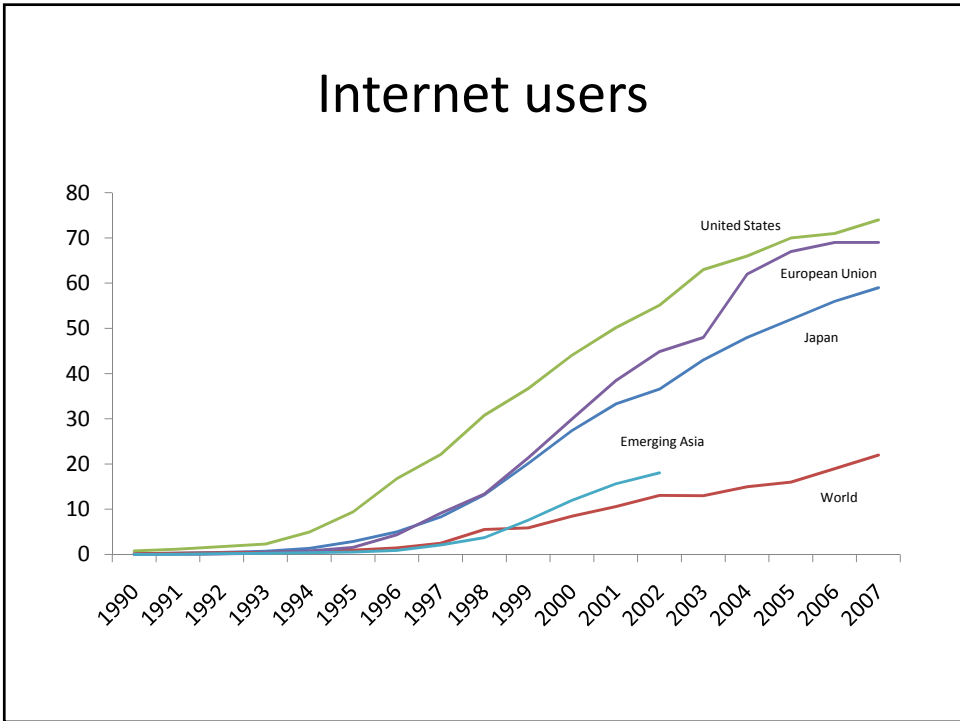
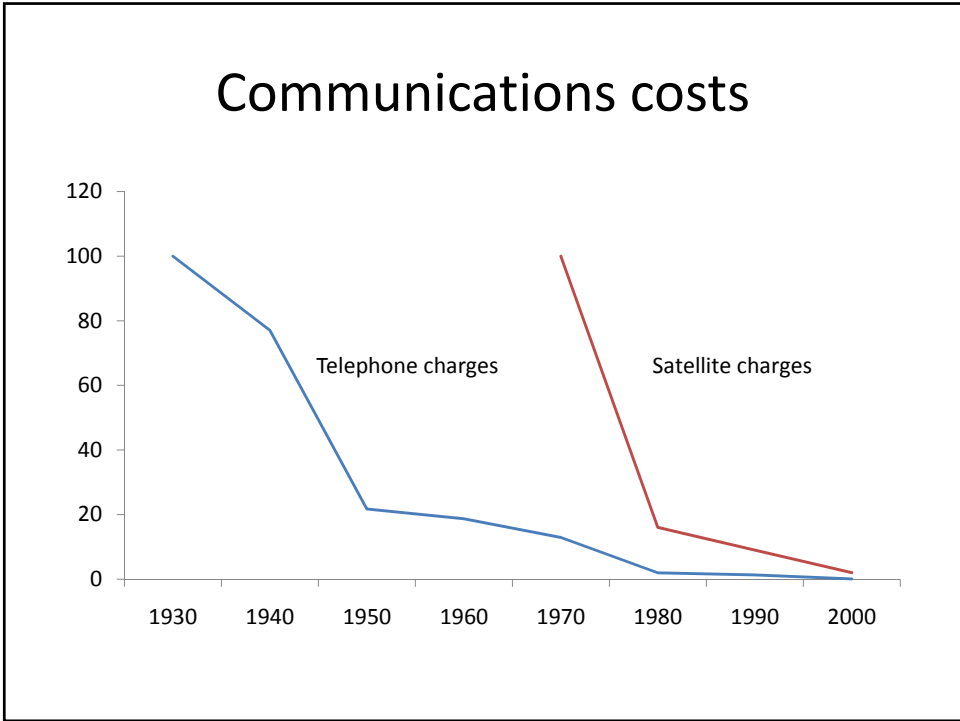
Globalization and monetary policy

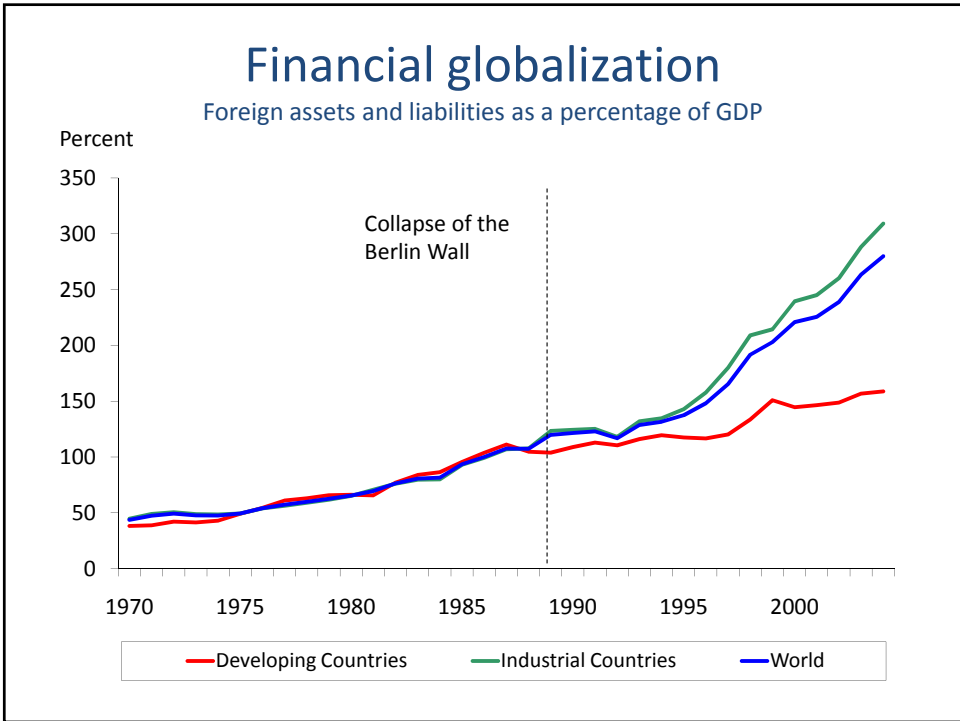
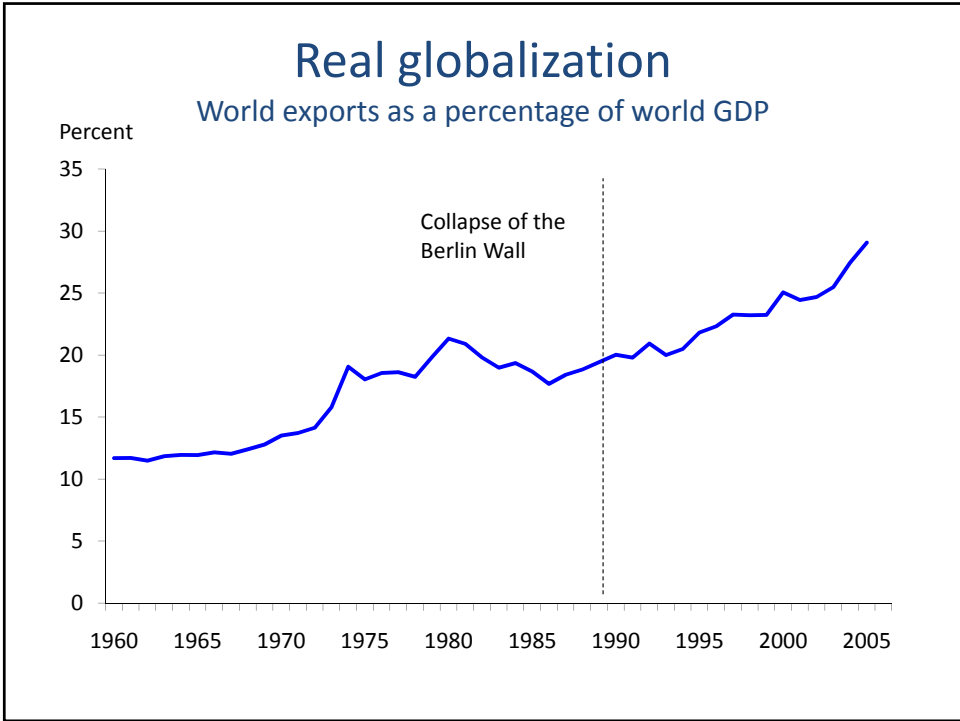
- Pre World War I era of globalization
 - Commodity monetary standard
 - Central bank money backed by real commodities (e.g. gold)
- Implications for monetary policy
 - Limited role for central banks
 - Stable price level
 - Real economy more unstable?

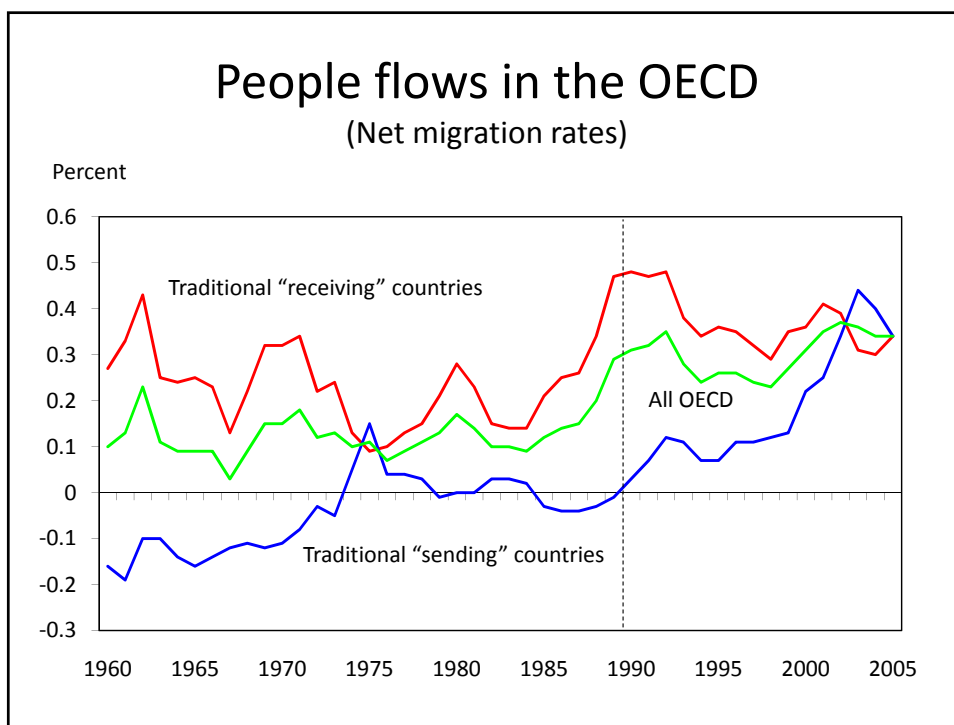
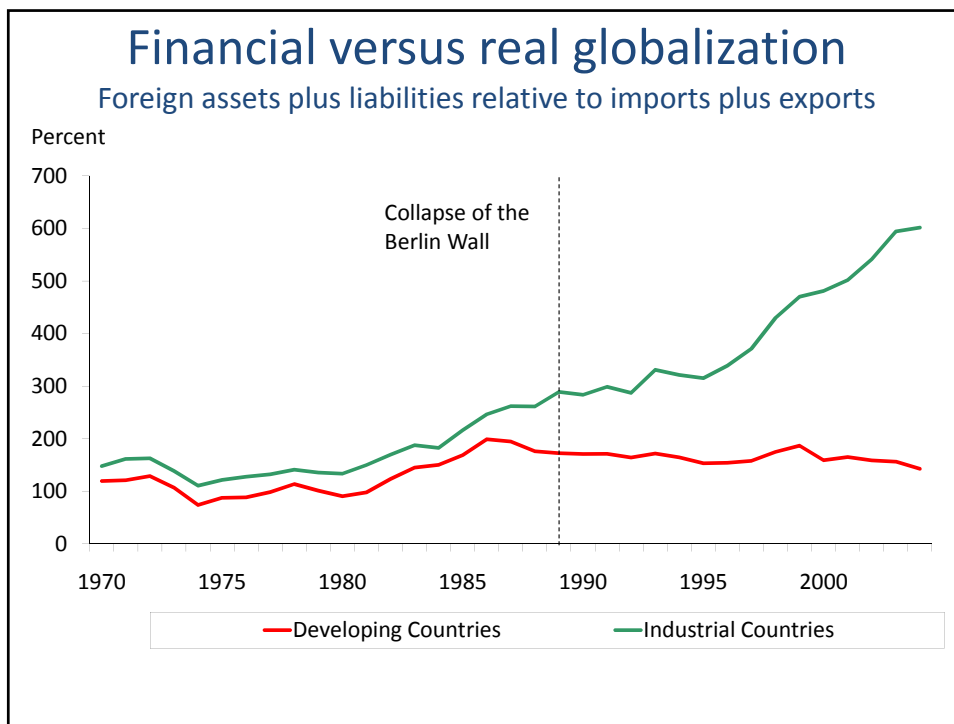
Declining transport costs



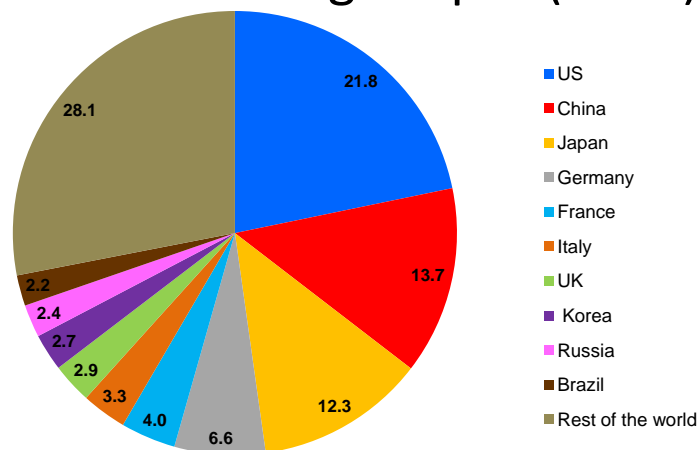






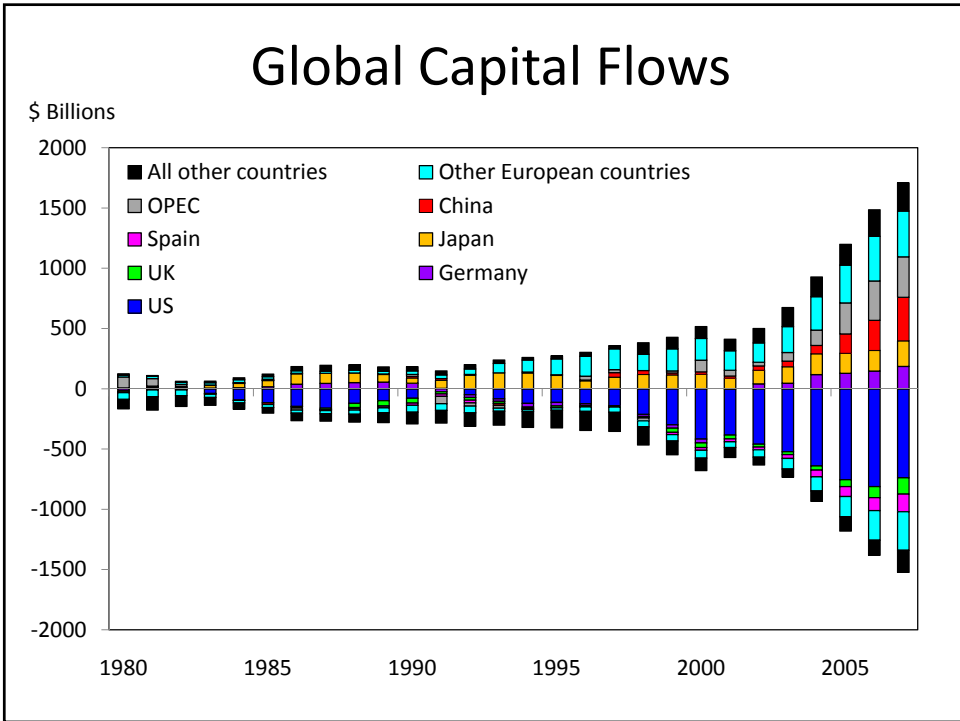
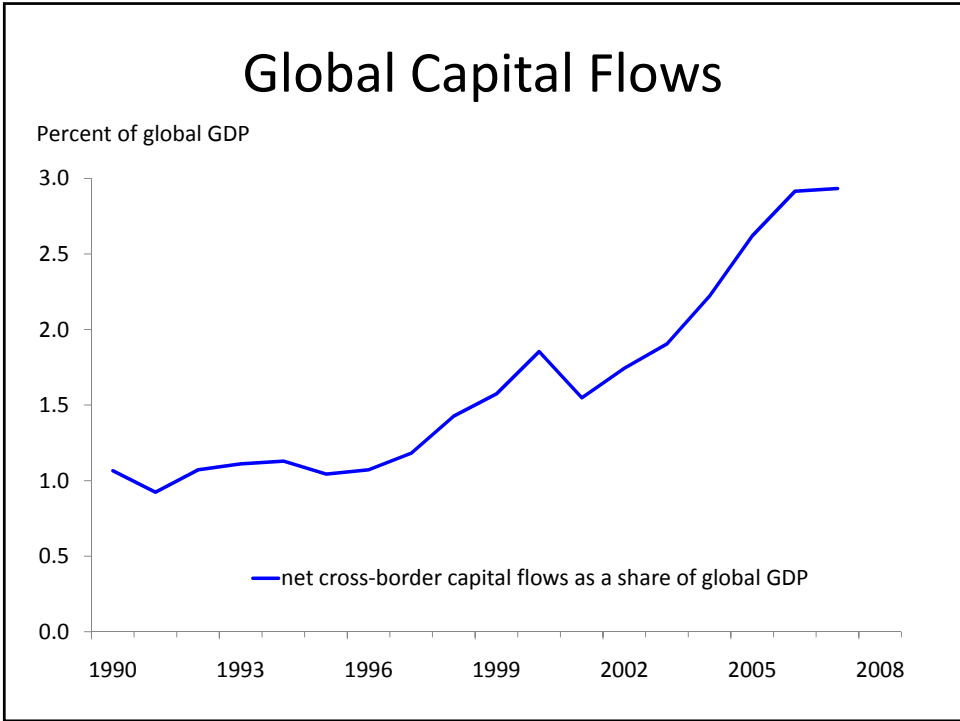


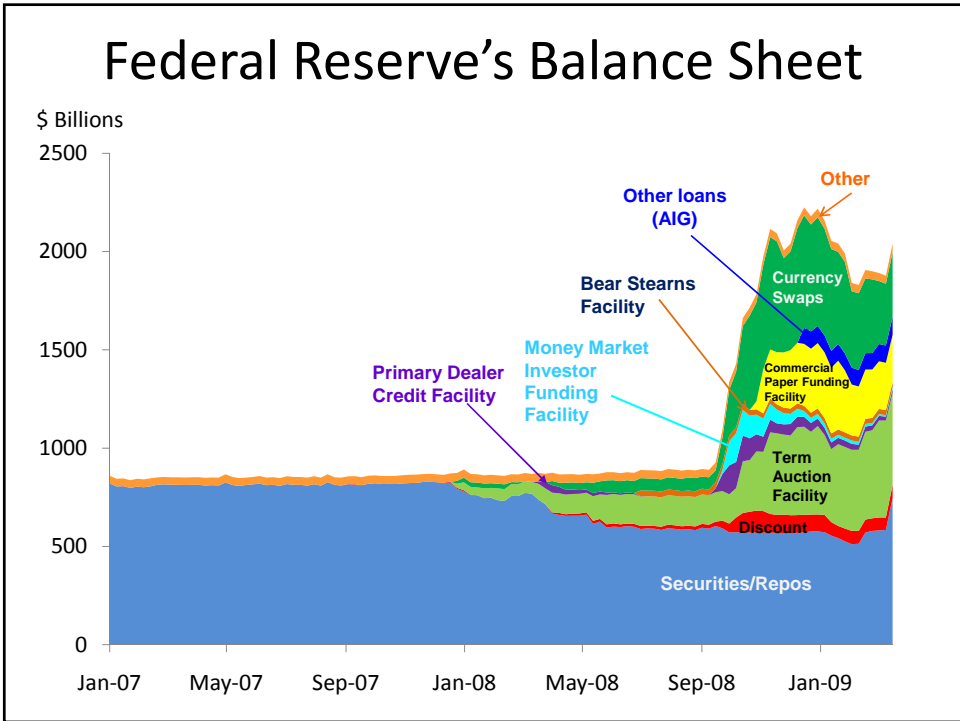
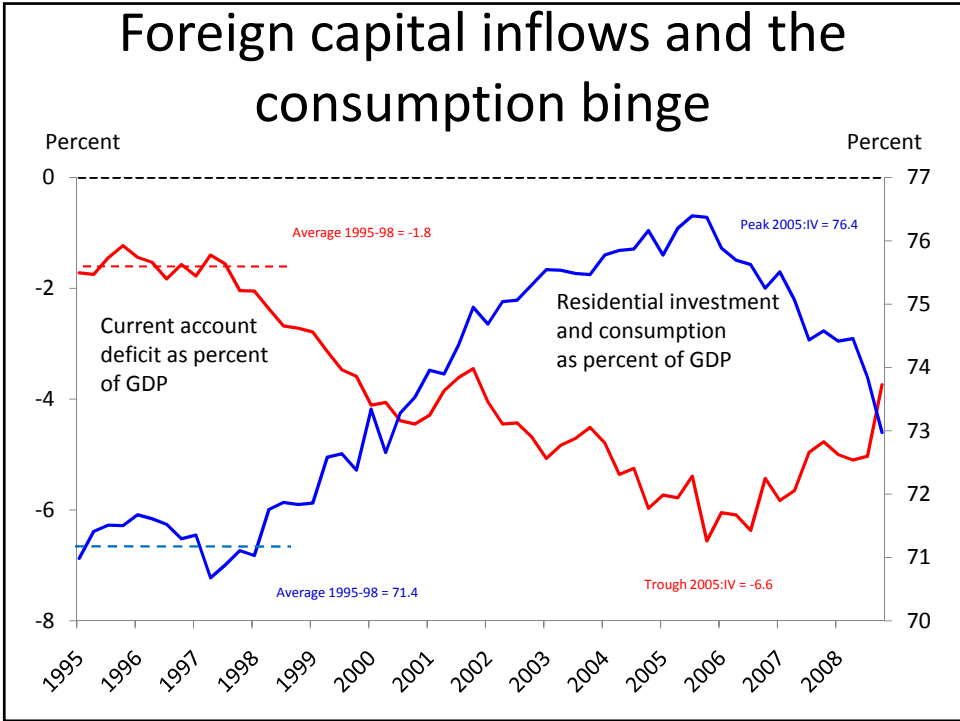
Country share of global manufacturing output (2007)



The Global Financial Crisis of 2007-?

- Global savings glut
- Consumption and housing boom in the US
- Financial innovation
- Incentives





Concluding observations

- Globalization not new!
- Backlash even during heyday
- Collapse in interwar period
 - Response to crisis & exacerbated crisis
- Globalization today
 - Contours of current crisis a manifestation of financial globalization
 - Key difference with the past: migration

Conclusions

- “...the world is too interconnected for nations to go it alone in their economic, financial, and regulatory policies. International cooperation is thus essential if we are to address the crisis successfully and provide the basis for a healthy, sustained recovery.”
 - Ben Bernanke ,London School of Economics, January 13, 2009

