

Intro: International Society in the Globalization Age

From World Empires to
World Economy

Globalization before GLOBALIZATION?

- If there was such a thing as “globalization” in pre-modern history it would be WORLD EMPIRES
- A **world empire** is a structure in which there is a single dominant political/military authority for a given expanse of territory
- The political authority of a world empire was based upon cultural/religious/ethnic supremacy

Two Forces Making Modernity

1. The breakdown of all empires & formation of **nation states**

- Process of state formation unfolds first in Britain, European continent, USA
- From 17th century – process based on recognition of state **sovereignty** = territorial boundaries separating “inside” from “outside” and the recognition of this within a nation state “system”

2. The emergence of the **capitalist** economy in Britain and Western Europe

Rise of Capitalism

- Prior to dawn of capitalist era inconceivable to talk about such a thing as an “economy” separate from religion, culture, ideology politics, etc.
- Capitalism – the economy seems to dis-embed from these practices to seemingly take on “a life of its own”
- Capitalism “frees” human beings from interpersonal relations of domination and subordination
- Capitalism – compulsion is abstract-economic + impersonal
- Ascendency of new social class – power of which is based on accumulated abstract mercantile wealth – bourgeoisie or capitalist class
- Economic power separate from political power yet becomes basis of latter in modern states

Origins of Capitalist World Economy

- Voyages of discovery Columbus to America's in 1492 + Vasco da Gama to India in 1498 set in motion processes that would see mass global movements of populations
- Dawn of the capitalist era marked by colonialism and pillage as wealth of the world siphoned to Western Europe and Britain
- Paralleling this was a dynamic of internal economic change where pre-capitalist social classes are dispossessed of their property
- Staid agrarian relations dissolved as erstwhile peasants flowed into new growing urban centers

Capitalist Expansion from Western European Heartland

- Based on growing economic force of mercantile wealth – capitalism expands beyond Western European heartland
- Capitalism's initial outward expansion resorts less to pillage or dispossession/expropriation and more to trade in mass produced commodities such as cotton textiles
- Britain experiences first industrial revolution to become “workshop of the world”
- Ascendency of Britain as the world's paramount capitalist power is expressed in its state policy of laissez faire or “free trade”

Global Trade Requires International Monetary System

- Modern banking - 1844 with establishment of Bank of England as first central bank
- Banknotes convertible to gold – this is the “gold standard”
- International monetary system was projection of England’s domestic system – therefore no significant separation between international, domestic and local monetary systems

Generalization of Gold Standard

- By 1871 gold standard adopted by most of Britain's colonies and trading allies
- 1879 it is adopted by most of the then industrializing world
- Early 1900's gold standard adopted by Japan, major Latin American states, Thailand and India

Benefits of Gold Standard

- Exchange rates invariant
- Its adoption provided “good housekeeping seal of approval” for domestic policies of participating states

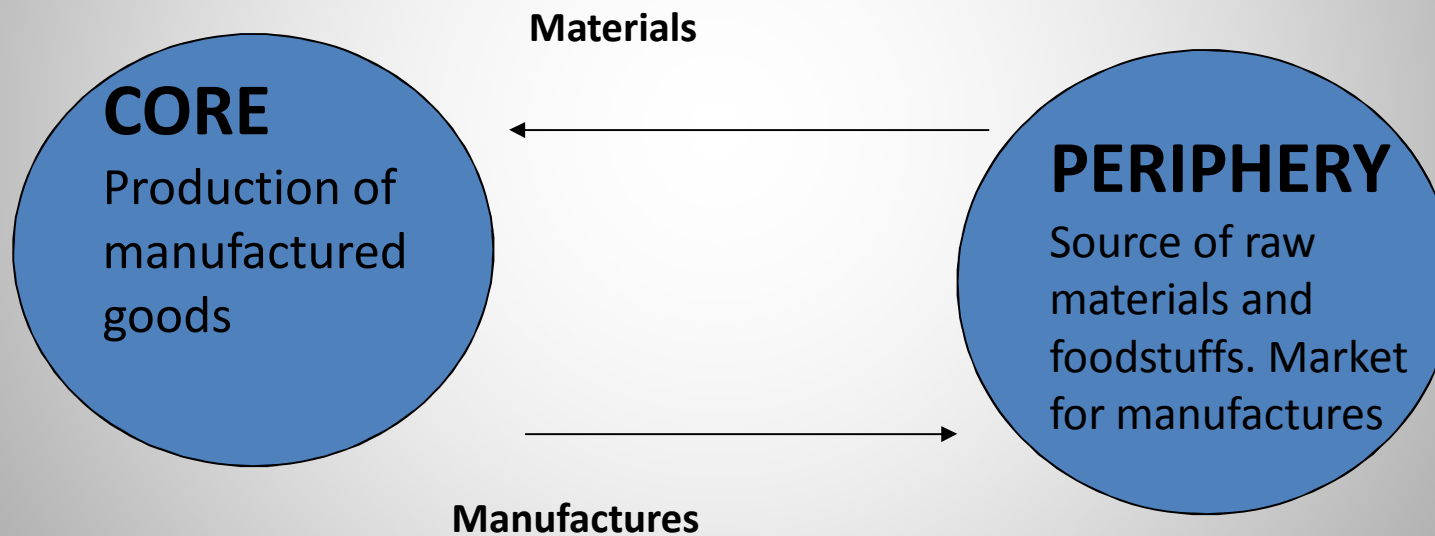
“Impossibility Theorem”

Capital Mobility	Stable Exchange Rate	Monetary Policy Independence
Gold Standard	Gold Standard	XX

Pre-WWI World Trade

- Peak period of growth in world trade 1880 – 1913
- World trade per capita grew 11 times faster than world output and established complex network embracing 155 trading areas on all continents

Trade and Early Global Division of Labor



Emergence of Capitalist Nation-State Competitors and the End of Laissez Faire

- Beginning of the 20th century witnesses the rise of powerful capitalist competitors to Britain as “workshop of the world”
- The main competitors are Germany and the United States (US) – soon followed by Japan
- While textiles and small entrepreneurial business characterized the 19th century, the early 20th saw growth of heavy steel and chemical industries and rise of giant monopolistic firms
- This period is referred to as the 2nd Industrial revolution

Monopoly Power and Imperialist Policy

- To reap rewards of global expansion of trade and investment through new transportation and communication networks, great powers sought to control as much economic territory as possible
- This territory was held as a preserve for “national” monopoly business

Early 20th Century International Finance

- Before World War 1 international financial activities extensive
- Claims on foreign assets tended to be held by private investors secured by income producing assets like railroads or mining companies
- Therefore as foreign wealth increased investors would be repaid out of profits
- Government debt was common but held by **private** investors
- And government borrowed based on their ability to levy higher taxes

World War 1 and the Transformation of Global Finance

- WW1 cost all participants \$209 billion. This involved consumption of resources that Europe was not able to finance by itself
- This changed principles of international finance as it gave rise to world where claims of governments on other governments exceeded private international investments
- Armament debts of \$28 billion and German reparations bill set at \$60 billion were part of that world

Emergence of United States as Global Creditor

- Prior to entering WW1 US government already owed monies by European governments for weapons
- Later loan packages from US to Europe were in part made from profits US had made from arms sales before war
- US turned inter-ally indebtedness into US government power in world affairs

Reparations Game

