

# 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 17<sup>th</sup> 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

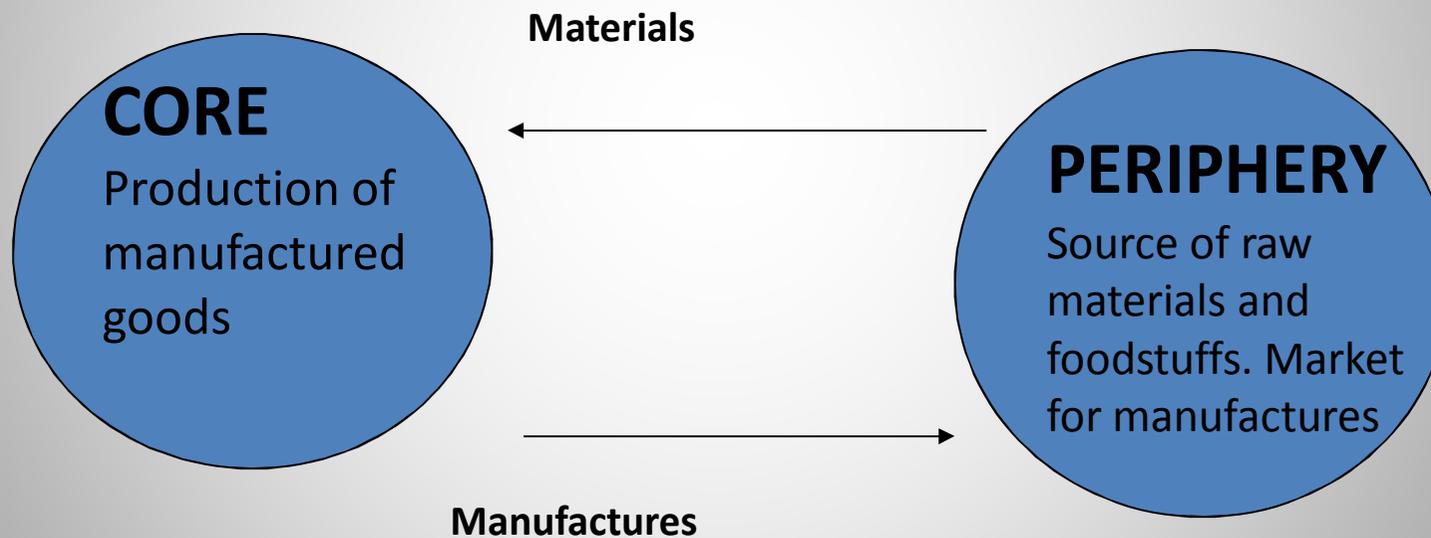
# “Impossibility Theorem”

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 20<sup>th</sup> 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 19<sup>th</sup> century, the early 20<sup>th</sup> saw growth of heavy steel and chemical industries and rise of giant monopolistic firms
- This period is referred to as the 2<sup>nd</sup> 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 20<sup>th</sup> 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

