

JEFFREY G. WILLIAMSON

GLOBALIZATION AND
THE POOR PERIPHERY
BEFORE 1950



**Globalization and
the Poor Periphery
before 1950**

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Jeffrey G. Williamson

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In memory and recognition of three giants
upon whose shoulders these lectures stand:
Moses Abramovitz
Bertil Ohlin
William Arthur Lewis

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This book is a revision of the Ohlin Lectures given at the Stockholm School of Economics, October 11–12, 2004. The lectures draw heavily on my past and current work on Third World globalization and history undertaken with many collaborators, some of whom have been my students, but all of whom are close friends. I am immensely grateful to them all: Luis Bértola, Chris Blattman, Michael Clemens, David Clingingsmith, John Coatsworth, Bill Collins, Yael Hadass, Tim Hatton, Jason Hwang, Peter Lindert, Saif Shah Mohammed, Kevin O'Rourke, Şevket Pamuk, and Alan Taylor.

As will become apparent to any economist trained in international economics, these lectures use the tools first constructed by Bertil Ohlin almost a century ago (himself standing on the shoulders of Eli Heckscher). Indeed, much of the economic history that these lectures explore are the very same decades that motivated what has come to be called Heckscher-Ohlin and Stolper-Samuelson economics. Furthermore, as will become apparent to anyone who has read his works, these lectures have also been motivated by and draw heavily on the pioneering and lasting contributions by William Arthur Lewis to our understanding of

modern economic growth. Lewis made his contributions at that critical point where theory, history, and policy intersect, most famously manifested by the publication of his labor surplus paper in 1954 almost a half-century ago, and capped by his Janeway Lectures in 1977. Last, these lectures bear the mark of my teacher, Moses Abramovitz, a great scholar who, when I was a graduate student at Stanford more than four decades ago, showed me how his powerful mix of theory and history can be used to understand the connections between growth and globalization. These Ohlin Lectures are offered in the memory of these three giants who have had such a profound impact on my thinking—Bertil Ohlin, William Arthur Lewis, and Moses Abramovitz.

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Cambridge, Massachusetts
Summer 2005

**Globalization and
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before 1950**

1

Laws of Motion: Secular Boom and Bust in the Premodern Periphery

These Ohlin Lectures define the core as northwest Europe and their overseas settlements, regions where the industrial revolution started and then took off across the nineteenth century. The periphery includes the rest—industrially lagging Europe to the east and south of the core, the Middle East, Africa, Asia, and Latin America. The premodern era is defined as the first global century, about 1820 to 1913, plus the antiglobal, autarkic interwar, 1914–1940.

The economic impact of the core on the periphery had its source in two forces that arose during the first global century. The first was a worldwide transport revolution that served to integrate world commodity markets. It caused a boom in trade between core and periphery, created commodity price convergence for tradable goods between all world markets, and contributed to a rise in every country's external terms of trade, including the periphery, indeed, especially in the periphery. The second force came from the derived demand for primary product intermediates, such as cotton and metals, which soared as manufacturing production led the way in the core. Rapid productivity growth lowered the cost and price of manufactures, and by so doing generated a soaring derived demand for raw materials in

the core. This event was reinforced by accelerating income per capita growth and a high elasticity of demand for luxury consumption goods, such as meat, tea, and coffee. Since industrialization was driven by unbalanced productivity advances favoring manufacturing relative to agriculture and other natural resource-based activities, the relative price of manufactures fell everywhere, especially in the periphery where they were imported.

The world transport revolution made it possible for the distant periphery to supply this booming demand for primary products in the core. Both forces produced positive, powerful, and sustained terms-of-trade shocks in the periphery, raising the relative price of primary products, and through an epoch that stretched over as much as seventy years. Factor supply responses in the periphery facilitated these external demand shocks, carried by south-south migration from labor-abundant to labor-scarce regions in the periphery and by financial capital flows from the core to those same regions. When these two forces abated, and when that abatement was joined by resource-saving innovations in the core (induced, in large part, by those high and rising primary product prices), the secular boom faded, eventually turning into a secular bust. Finally, whether during boom or bust, technological advance and human capital accumulation were so modest in the periphery that the living standard gap between it and the core surged to levels that were vastly wider at the end of the cycle than when it started almost a century and a half before. Whether the modest rates of technological advance and human capital accumulation in the periphery were caused at least partly by globalization-induced deindustrialization forces there has, of course, been a central issue in growth and development debate since it all started.

Between 1820 and 1940, the periphery obeyed laws of motion that economists delight in exploring. The long-run secular boom and bust was generated in response to two of the most profound technological shocks the world had yet seen—in industry and transportation, shocks exogenous to the periphery, if not the core.

These lectures document these laws of motion in the periphery, assess their distribution and growth consequences, and then ask how trade policy responded to them.

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