The Great Specialization and Industrial Revolution (1820–1914)

Lecture 3

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The Great Specialization (1820-1914)

1. Between 1820 and 1914, cross-border trade grew faster than total production.
2. An increasing share of spending was on foreign goods and services.
3. A significant decline in trade costs facilitated economic integration.
4. Globalization transformed productive activities worldwide.

What Drove the 19th-Century Trade Boom?

1. Trade costs declined significantly, stimulating trade growth.
2. In the 1870s, 73% of trade growth was due to falling trade costs.
3. Between 1900 and 1910, 63% of trade growth was driven by economic expansion.
4. Trade integration decelerated after the 1880s.

Key Drivers of Integration

1. Improved transportation links.
2. The telegraph enabled more timely information.
3. Lower tariffs promoted trade liberalization.
4. Exchange rate stability reduced uncertainty.
5. Global financial integration facilitated cross-border transactions.

Transportation Revolution: Steamships

1. Steamships revolutionized maritime trade between the 1820s and 1870s.
2. Steel hulls increased shipping capacity and reliability.
3. Screw propellers enhanced speed and efficiency.
4. The steamship dominated long-haul trade routes by the late 19th century.

Shipping Tonnage Growth

1. Cargo capacity increased fourfold between 1830 and 1850.
2. Maritime freight costs declined significantly.
3. The cost of shipping coal fell at an average rate of 0.8% per year.
4. By the 1870s, shipping costs were nearly half of their 1800 levels.

The Impact of the Suez Canal (1869)

1. The canal drastically reduced travel distances between Europe and Asia.
2. It shortened the London-Bombay route by 47%.
3. Trade efficiency improved, facilitating greater global integration.
4. The canal reshaped maritime trade routes worldwide.

Railroads and Trade Expansion

1. Railroads connected ports to hinterlands, expanding trade networks.
2. The Chicago-New York rail link boosted U.S. trade.
3. Indian railways connected farmers to global markets.
4. By 1913, Argentina and Brazil had extensive railway networks.

Telegraph and Market Integration

1. The telegraph enabled near-instant communication across continents.
2. Tramp ships used the telegraph to find the best market opportunities.
3. Real-time information reduced trade uncertainties.
4. The London-New York cable (1866) cut communication time from 10 days to one hour.

Trade Policy Changes

1. Great Britain led the free trade movement in the 19th century.
2. The repeal of the Corn Laws (1846) marked a shift towards trade liberalization.
3. The Cobden-Chevalier Treaty (1860) lowered tariffs between Britain and France.
4. By 1870, European tariff rates had dropped significantly.

Global Trade Network Formation

1. The 19th-century trade network was not fully global.
2. Smaller, isolated nations rarely traded directly.
3. Trade centered around major economic powers.
4. Colonial ties significantly influenced trade relationships.

Factor Price Equalization

1. Trade led to wage convergence among nations.
2. Labor-abundant countries saw rising wages.
3. Land-abundant countries experienced declining wages relative to land values.
4. Economic historians link trade to global income convergence.

The Gravity Model of Trade

1. Trade volume is proportional to economic size.
2. Distance acts as a barrier to trade.
3. Britain traded more outside Europe due to empire connections.
4. Economic size and proximity determine trade intensity.

Trade Specialization: Ricardian Model

1. Comparative advantage drives trade specialization.
2. Countries export goods they produce efficiently.
3. Reductions in trade costs increase specialization.
4. Trade enhances real incomes globally.

Trade Specialization: Heckscher-Ohlin Model

1. Nations export goods using abundant factors of production.
2. The U.S. and Argentina exported agricultural goods, Britain manufactured goods.
3. Falling trade costs led to factor price equalization.
4. Income convergence was observed among leading trading nations.

New Trade Theory and Economic Geography

1. Consumers prefer variety, driving intra-industry trade.
2. Market size attracts firms, leading to industrial agglomeration.
3. Trade liberalization exposed local industries to competition.
4. Industrial hubs emerged where economies of scale were present.

Factor Price Equalization and Trade

1. Trade influences income distribution within nations.
2. Labor-abundant countries experience rising wages.
3. Landowners in resource-rich nations benefit from trade.
4. Wage convergence is observed among trading nations.

Impact of Trade on Industrialization

1. Free trade spurred industrialization in some regions.
2. Manufacturing centers developed in Europe and North America.
3. Specialization led to efficiency gains in production.
4. Some nations faced deindustrialization due to competition.

Challenges of Global Trade in the 19th Century

1. Trade liberalization led to both winners and losers.
2. Economic disparities emerged between industrialized and non-industrialized nations.
3. Protectionist policies resurfaced in some countries.
4. Political and social tensions arose due to trade shifts.

Summary

1. 19th-century globalization lowered trade costs dramatically.
2. Integration fostered economic growth but led to divergence in some regions.
3. Transportation, communication, and policy changes drove trade expansion.
4. Trade theories explain historical patterns of specialization and trade.