

EconoFact Chats: A Brief History of Globalization

Christopher Meissner, UC Davis

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Michael Klein

I'm Michael Klein, executive editor of EconoFact, a nonpartisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

We are all familiar with the Latin phrase E Pluribus Unum, one from the many, as referring to the United States. Professor Christopher Meissner uses the English translation of this phrase towards a different meaning in the title of his new book, *One from the Many: The Global Economy Since 1850*. The many here refers to the separate countries that constitute the one global economy. The timeframe in the subtitle is important. The perspective offered by this prominent economic historian offers a long horizon view of the path of globalization. This long view also highlights the benefits of being integrated in the global economy, analogous to the benefits of E Pluribus Unum, one from the many, for citizens of the United States who are not just solely citizens of Maine, Missouri, Montana, or Mississippi. The narrative and arguments Chris makes in this book are especially important these days with political controversy about globalization, both in the United States and abroad. Chris is a Professor in the Department of Economics at the University of California, Davis, and a Research Associate of the National Bureau of Economic Research. Chris, congratulations on the book and welcome to EconoFact Chats.

Christopher Meissner

Thanks, Michael. Pleasure to be here.

Michael Klein

Chris, in the introduction I focused on the title of your book. The key words in the title are the 'global economy.' Globalization is a catchphrase, but nonetheless it'd be useful to start off with a brief explanation of what you and other economic historians mean when they talk about the global economy.

Christopher Meissner

Sure, so here I want to really focus on the global economy, which is not just a bunch of separate economies, but the summation of all the activities and economies in the world. You can make the

case that this whole, this global economy is greater than just the sum of its individual parts or economies. That's what I focus on.

Michael Klein

Why is it that the whole is greater than the sum of the parts? I guess it's somewhat analogous to if you live in Maine, you benefit from being part of the whole United States and not just solely in Maine.

Christopher Meissner

Sure, as economists, we like to focus in on the gains from trade or integration more generally. Trade brings us stuff, lower price, and greater variety. International investment allows us to diversify our portfolios. Migration really helps bring us a set of skills that are embodied in the workers that come to our economy that we might not have otherwise had. Whether you're looking at migration, capital flows or trade, there are great gains to be had from integration.

Michael Klein

Chris, I don't want to be too nitpicking about this, but the subtitle of the book is a little bit inaccurate. Since the second chapter, which you call the very long run, has the subtitle itself 10,000 BCE to 1820. It's only one chapter, so I'll allow it to pass. Does that also reflect the relative lack of globalization over this very long epic as compared to the past two centuries?

Christopher Meissner

Well, you got me, but I had to have some sort of prologue. Look, people have been trading for a long time. They always want to do it, but given the technology of the time, they couldn't do as much as they wanted to, and they couldn't move as far as they wanted to. They couldn't invest as much as they wanted to. What happened before the 19th century was dramatically different. The technologies changed a lot starting at about 1820. I'd love to talk about them as we go along.

Michael Klein

I'd love to hear about them. What are some of the key technologies of the 19th century that allowed greater integration of the world economy?

Christopher Meissner

Well, unprecedented changes in transportation, including the railroads and the steamships, communications technology, like the telegraph, dramatically advanced our ability to trade at long distance. The Suez Canal opened in 1869 and it brought the markets of Asia closer to Europe and vice-versa. There are amazing advances there. London served as the global capital of capital. That is the world's financial center. Its international banks underpinned the global trading

system. Steamships also promoted migration, which, as we know, was voluminous in the 19th century. Just go down to Ellis Island and you'll see that.

Michael Klein

Was there also a political element to this expanding globalization in the 19th century?

Christopher Meissner

Undoubtedly. There was way more than just the technologies. Great Britain was a staunch follower of the ideology of free trade. And that was infectious. Signed a number of trade treaties over the course of the mid-late 19th century, which dramatically lowered tariffs, and countries that signed those treaties also did the same. Ideas like free trade, the empires that spread in the 19th century were important for promoting trade. The British Empire, the sun never set on it, but the French were out there too, and the Americans gradually acquired territories. Even in China, where the Europeans colonized various cities and they called those treaty ports at the time, it was brought into the world trading system. So ideas, interests, technologies, all of these mattered.

Michael Klein

So again, the title of your book refers to 1850 to the present. Has the integration of the world economy been generally on an upward trajectory over this long time period?

Christopher Meissner

It has, definitely. But there are notable periods of decline. The story in the book covers the rise of the 19th century and the rise of the late 20th century, but in between we have a vast decline in integration in the 1920s and 30s, the interwar period.

Michael Klein

And this was, of course, a time of deep economic distress, which I suppose was both caused by the lack of integration, and helped foster the fragmentation as well.

Christopher Meissner

Oh, for sure. There was global economic rivalry. There were a number of economic shocks. World War I did not help the global economy, and getting things back to normal given the considerable political changes that occurred was more than difficult.

Michael Klein

And even Keynes, one of the great economists of the 20th century, in a speech in Dublin in 1933, called for economies protecting their own, right?

Christopher Meissner

It's an interesting point. In the 1930s, things did not look good for the global economy. People blamed the global economy and integration for their troubles. Countries raised tariffs. There was a global trade war. Capital flows were shut down. Keynes thought it had gone too far. That countries could not withstand for their globalization. They were giving up too much. But remarkably, it came back after World War II. It took a World War to get there, but it came back. And that's an interesting story, too.

Michael Klein

And so, Chris, since World War II, what's the trajectory looked like for globalization?

Christopher Meissner

Well, it's been on the rise. We call that the second wave of globalization. And again, that's due to a number of technological and policy changes – technology changes that we emphasize are telecommunications, containerization or container ships. Now, [with] the internet communications are virtually free at long distance. Air travel is much easier with all the direct connections we have. But we also had a system of free trade through the GATT and then World Trade Organization that helped out a lot, and there were a number of other efforts to promote trade. And the idea of trade was also back in fashion. [The] 30s were a total disaster. We didn't want to go back to that.

Michael Klein

So, do you think the 30s served as an object lesson that shaped policy after World War II?

Christopher Meissner

There were many lessons learned from the 1930s and implemented. And I think it's remarkable that the world's leaders were able to learn lessons from the 30s. And that's what you have to do. You have to stay flexible and adaptable. So, when they redesigned the international financial system at the Bretton Woods Conference, they tried to learn from the 30s. When trade collapsed in the 30s, it was a lesson, and world leaders attempted to set up something like the World Trade Organization to ensure that didn't happen again. So, there were a lot of lessons learned and attempts were made to do better.

Michael Klein

And just to bring up Keynes again, he was one of the primary participants in the 1944 Bretton Woods Conference.

Christopher Meissner

Yes. He had his views on what we should learn. The Americans had their views, and they reached a number of compromises, which I go into in depth in the book. It goes to show you that the global economy has a life unto its own. It's not just what one country thinks should happen. It's a joint effort. So, I think there's no greater illustration of that than the Bretton Woods Conference.

Michael Klein

Chris, the debate today seems to center on whether globalization is a good thing or a bad thing. When I teach my students about economics, I say the answer to most questions in economics is 'it depends.' Is that the case with the benefits of globalization as well? And if so, on what does it depend?

Christopher Meissner

Oh, it certainly depends. And I think that the point of recent scholarship is we need to make sure that we emphasize the gains, and ensure that we minimize the losses from globalization. So, there's always some groups or sectors that don't gain as much or, in fact, lose from globalization. And I think the lesson is that we have to do better, and using the gains to compensate in some way, those who are less favored by the globalization process. So, how good it is depends on how good the approach we take to globalization is, I think.

Michael Klein

Do you think globalization is blamed for more than it is due to be blamed for? For example, for the stagnation of middle-income jobs in this country. Automation, I suppose, is also important in that.

Christopher Meissner

Yeah, I think some studies showed that automation was way more responsible in the 1980s and 90s for some of those losses that you're talking about. More recent studies have pushed back on that. We need to have better policies that ensure that areas, regions, [that] are left behind and that we can adapt to changing technologies and a changing global economy. We need to do better on that. I think that's an important lesson from not just the American economy, but any other economy you study in the last 50 years.

Michael Klein

And helping those places that are left behind, regardless of the sources of why they're left behind, right?

Christopher Meissner

Sure. The global economy is always an easy target. It's an easy enemy to point out. People are happy to hear that. But when you dig down into it, there are many causes of economic malaise, and the global economy, maybe partially responsible, but it's not fully responsible. But a good functional government and public sector recognizes the nuances here.

Michael Klein

So speaking of the public sector, recently there's been an effort to delink, as the saying goes, and one of the stated reasons is national security. Is there historical precedence for this?

Christopher Meissner

Most definitely. I think that if you look back to the 19th century, there was great international rivalry. For example, Germany was quite worried about securing access to resources and maintaining its market share. And so while today we worry about chips or semiconductors, in the 19th century, we had the ships. Germany was rearming for war, and Britain tried to keep up. Today, we're in competition to secure national security through better access to world technology. So vital inputs and market access are still on the scene, but they were also an issue historically.

Michael Klein

So it was ships, and now it's chips. It's a little bit like history doesn't repeat, but it rhymes.

Christopher Meissner

Yeah, it definitely rhymes, and almost literally in this case.

Michael Klein

Right, almost...literally actually.

Christopher Meissner

So yeah, I think there's a lot to learn from history, which is why I wrote the book. I think we cannot forget those, in quotes 'lessons.'

Michael Klein

So speaking of the lessons from history, one of the most hot button issues these days in the United States and elsewhere is immigration. Is the historical path for international labor mobility much less of an upward trend than that for international trade or international finance? And what are the lessons that we should draw from periods where there was greater international labor mobility?

Christopher Meissner

It's not on less of an upward trend. I think the trends in migration follow the trends in trade and capital flows. So we're back at the same share of foreign born in the United States as we had right around World War I. The gains are just incredible. The foreign workers compliment our local workers, and that was as true in the United States as it was in Canada, Argentina or Australia back in the 19th century, and it's true in Australia today or the European Union or the UK today, or even Canada. So there's a lot of similarities between today and the past.

Michael Klein

Yeah, I just recently interviewed your Davis colleague Giovanni Perri about immigration and the economy, and of course his focus isn't as long [a] horizon as yours, but he comes up with many of the same arguments that you're making when you look at the historical evidence as well. So Chris, I know some Presidents have hosted dinners with historians to pick their brains about what the past tells us about the present day. There's that quote from Mark Twain that we used, history does not repeat, but it rhymes. If you were invited to one of these dinners and asked to comment on the lessons drawn from the history of globalization for today, basically, you know, drawing on the lessons that you put forward in your new book, what would you say?

Christopher Meissner

Yeah, thanks for that question. Let me do two things. Let me say first that you have to recognize the gains and the costs or losses from globalization. Just have to be realistic about it. The right response, based on what I know from history, is not to say let's de-globalize in the face of losses. The right response is, let's deal with the losses in a smart way, and there are ways to do that. Transfer payments, social security or social welfare systems. Flexible economies do better, and we've seen that in history, and I think it's true today. So going inward is no solution. The other one, a bit more speculative, and one which I ponder myself these days is what happens when they are competing superpowers. Does it always end in tears? We saw in the 19th century Germany attempt to kind of move on Great Britain, up to that point, kind of leading superpower, and we had the Cold War in the 20th century, and today we talk about rivalry between China and the U.S. Can the global economy survive that? I hope so. I hope what we've learned from the past is that we have to make efforts to cooperate. If we don't, the world can endure a period of great destruction and suffering, and that's not in anyone's interest. So we need to learn from the past and think creatively about ways we can do better than what we did before. I'm worried about that, but it's in the President's hands, who I'm having dinner with, so I don't know what the solution is, but I recognize it as an issue.

Michael Klein

Well, Chris, again, congratulations on the publication of *One from the Many*, and best wishes for the book receiving the attention it duly deserves. Also, thank you for joining me today for this discussion.

Christopher Meissner

Thanks, Michael. Thanks for having me. I hope everyone enjoys the book, and it was great to talk to you.

Michael Klein

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