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New perspectives on the first wave of globalization

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The first "Great Wave of Globalization," during the late 19th and early 20th centuries, witnessed a historically unprecedented, multilateral, and rapid rise in international trade. Between 1850 and 1913, transportation costs plummeted, information flows accelerated, tariffs fell, trade treaties such as free trade agreements with unconditional most-favored-nation clauses and treaty ports proliferated, and empires expanded. In addition, a set of global financial inter-mediasities flourished, migrants flowed to previously unsettled regions in unprecedented numbers, and economic and political stability was largely the norm.

Unsurprisingly, many commodity prices converged and the export share of total production increased dramatically, dovetailing in the evolution of international economies between 1850 and 1914. In addition, new markets opened up to international trade and previously unavailable varieties of goods became accessible. Patterns of specialization and production processes were transformed. All of these forces significantly affected the living standards of industrial leaders and their followers. Such questions potentially have great relevance today both to developing countries and to leading countries that are being strongly affected by globalization.

My research, in collaboration with Michael Huberman, David Jacks, Dan Liu, Dennis Noyy, and Kim Oosterlinck, seeks to understand by requiring a greater future fiscal retrenchment than would otherwise be necessary.

My estimate of 1.6 percent for the current rate of potential real GDP growth is almost exactly equal to realized actual real GDP growth in 2004–14, implying "more of the same" rather than another great wave of economic integration. The 1.6 percent potential growth rate is almost exactly half of the realized growth rate of actual real GDP between 1972 and 2004; of this difference, roughly one-third is due to slower productivity growth and the other two-thirds to slower growth in aggregate hours of work.

New Perspectives on the First Wave of Globalization

Christopher M. Meissner

Christopher M. Meissner is a Research Associate in the NBER’s Program on the Development of the American Economy and a professor in the department of economics at the University of California, Davis. His research interests include measuring international trade integration, the determinants of international trade, and the impact of international trade on policies and institutions. Other research focuses include international capital flows in the first wave of globalization, the origins and consequences of foreign currency debt, and the determinants and consequences of financial crises.

Meissner received his A.B. in economics from Washington University in St. Louis in 1996 and his Ph.D. in economics from the University of California, Berkeley, in 2001. Before joining UC Davis, Meissner was a lecturer in economics at Cambridge University and a fellow of King’s College, Cambridge.

Meissner lives in Davis, California, with his wife and four children and also spends a good deal of time in the far north of France, near Lille. Science fiction, foreign films, eating and cooking spicy food, and endless home improvement projects keep him busy when time permits.

The the Medium Run

When the U.S. unemployment rate fell below 6 percent in late 2014, attention began to shift from short-run demand factors that affected the labor market to longer-term considerations such as the economy’s potential output growth rate that would set a limit on the rate at which actual output could grow once the unemployment rate stabilized at a particular value. I proposed a simple method of calculating the growth rate of potential GDP based on estimates of each component of the output identity, a definition linking output to productivity, hours by employee, the employment rate, the LFP, and the size of the population. Based on alternative estimates of productivity growth and the change in the LFP, I calculated a range of three values for the potential output growth rate. The central prediction of 1.6 percent per annum is much lower than the 2.2 percent annual growth rate currently assumed by the CBO, a difference that implies the CBO has overstated the 2024 real GDP by $2 trillion. Because slower future output growth implies less growth in tax revenues, I calculate that the CBO has understated the 2024 federal debt/GDP ratio by 9 percentage points (78 vs. 87 percent). Slower potential GDP growth adds to the bite of the federal debt headwind by requiring a greater future fiscal retrenchment than would otherwise be necessary.

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tant is understanding how much trade costs mattered relative to other determinants, such as economic growth and colonialism.

Previous work in economic history has emphasized the rapid decline in transportation costs as the fall in tariffs. However, a number of other trade costs mattered over this period, and not all of them followed the same path as real transportation costs. My collaborators and I have built up a number of historical databases that allow us to track the evolution and impact over time of trade costs other than transportation costs and tariffs. For instance, my research with Jérémy Lefort-Costes found that the share of countries covering 28 countries between 1870 and 1910 used a gravity model of bilateral trade flows.

We find that when two nations adopted the gold standard, trade was higher by 15 percent, on average, relative to other non-adopters. Monetary unions, political alliances, lag-time, and trade treaties also affected the direction of trade. Many other factors determine trade costs, such as access to land, the extent to which very these are unobservable or impossible to measure in any conventional sense. In this case, a structural approach to trade costs can be taken. Jacks, Noy, and I measure trade costs as the scaled difference between domestic and international trade flows. The structural approach provides a measure of trade costs in terms of a tariff equivalent, and it is often referred to as the “head-Ries measure.”

Our explanation for this is, first, that our all-encompassing trade-cost measure captures many friction that were slower to decline than freight rates. These include border frictions, legal, and cultural barriers to trade, and significant rises in tariffs during the period. Another crucial aspect to highlight is that international integration can only rise when the relative costs of engaging in international trade fall. During this period, the railroad and many other domestic infrastructure projects promoted internal as much as international integration. We also studied the effects of the integration, the drivers of growth in overall trade in 1870–1913 and in 1950–2000 appear to have been quite different.

The Margins of Trade and the First Wave of Globalization

Recently my collaborators and I have begun to use disaggregated historical trade statistics to understand better the underlying determinants of trade flows and its impact on local economies. Using newly digitized bilateral, product-level trade data for Belgium, a typical industrializing small, open economy between 1870 and 1913, we illustrate that globalization in the 19th century had a very important “extensive margin.” While the existing literature on pre-1914 globalization has emphasized a “great specialization,” this characterization fails to take into account that a significant fraction of the growth of trade was due to the export of new goods and the opening up of new markets. Significant amounts of the observable growth into international trade were also in fact already intra-industry. This observation leads us to believe that, as now, firm-level heterogeneity and trade costs mattered.

We first decompose the growth of Belgian manufacturing exports into an intensive margin (old products and old countries) and an extensive margin (new products and new countries). Between 1880 and 1910 about 58 percent of the growth in Belgium’s total exports was accounted for by the appearance and growth of exports of new goods. In this case, 45 percent of the growth is attributable to the intensive margin and the products that were already being shipped in 1870. A small set of exports was a discontinued, acting to reduce trade by about 3 percent less than would otherwise have been the case. We are also able to track the evolution and impact of a number of trade costs, some of which acted as “fixed” costs to exporting, and some of which acted as “variable” costs. We find that higher evidence that diplomatic representation, colonial ties with other exporting nations, and the presence of a new-goods sector acted to alter the fixed costs of trade, implying that these factors helped generate — or limited, in the case of the U.S. and Britain — a free-trade economy.

We also find other evidence consistent with the idea that firm-level heterogeneity was important in the first period. Belgian trade with colonies of the great powers — export success in new goods, such as tramways and other high quality/value-added manufactures. We therefore also find evidence consistent with the idea that firm-level heterogeneity was important in the first period.

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growth impact of the first wave of globalization in an important industrializer. Together with similar datasets that are currently being processed by researchers around the world for China, France, Germany, Italy, Japan, Switzerland, and the U.K., a new view, or at least a greatly enhanced vision, of 19th century globalization is sure to emerge. Countries did not compete and grow based only on their factor endowments. Like today, producers and consumers gained from access to new finished and intermediate goods and higher-quality varieties of already existing goods, such that the welfare gains from trade strongly contributed to rising in living standards during the first wave of globalization.


Pricing and Marketing Household Financial Services in Developing Countries

Dean Karlan and Jonathan Zinman

Retail financial institutions worldwide are facing greater competition and regulatory scrutiny. This makes it increasingly important for them to understand the drivers of consumer demand for basic financial services if they are to maximize profits, improve social impacts, and address public policy concerns. Researchers also need to understand these drivers in order to calibrate, shape, and test models in fields ranging from contract theory to behavioral economics to macroeconomics. Likewise, policymakers need to understand these drivers in order to sift through a plethora of potentially relevant theories and set appropriate regulations. This paper seeks to identify the effects of pricing and marketing on demand for short-term loan and savings products in developing countries.

Pinning down causal effects of financial institutions’ pricing and marketing strategies is complicated by at least five issues. One is the classic social science problem: Relying on observational data is fraught with the risk that changes in price or marketing are correlated with other changes—e.g., in macroeconomic, household budget constraints—that drive selection. This is a particular concern when estimating treatment effects from expanding access to financial products such as credit, savings, or insurance. A second issue, intimately related to the first, is low statistical power due to limited variation in key policy parameters. A firm making a single change to pricing, a product, or marketing is basically generating a single data point of variation. The effects of the single change are difficult to disentangle from other contemporaneous changes affecting the firm and its competitors. This is a particular concern for savings products, since changes over time are likely to be more common and direct marketing is less common with savings products. These two issues address Issue Three.

A third complicating issue is that most measures of demand sensitivity—for example, demand elasticities—are not fundamentally changing parameters. We expect demand sensitivities to change with factors like competition, labor market conditions, and search costs. A fourth issue is that a firm’s levers are rarely perfectly correlated, and thereby may therefore lead to deceiving results if interpreted strictly as an average effect. Our fifth issue is that strategy often requires an understanding of underlying mechanisms, while identifying mechanisms requires observing off-equilibrium behavior. For example, observing loan repayment and other borrower behaviors under atypical conditions can help test theories of asymmetric information or liquidity constraints.

We address these challenges using field experiments implemented by financial institutions in the course of their day-to-day operations. The partnering financial institutions randomly assign prices, communications, or access to products, generating variations in price, marketing, or access to products, generating variations of a single parameter. For example, allowing more flexible repayment terms in our loan repayment experiment. This addresses Issue Two.

In some instances, the financial institutions’ randomized policies are implemented across sufficiently different people or markets, and are in place for long enough to vary learning lengths of time, that we can examine under what conditions demand varies. This addresses Issue Three. In another instance,