Economics 303Y1

The Economic History of Modern Europe to 1914

Topic no. 10 [20]: The Classic International Gold Standard: 1840 - 1914

International Capital Flows and Price Movements (Inflation and Deflation) under the Gold Standard, ca. 1840 - 1914: Did Real or Monetary Factors Predominate?

READINGS:

The readings are given in the chronological order of original publication; the asterisks indicate the more important items to be considered.

For readings on the economic development of modern Europe, to 1914, see section II, below.

I. The International Gold Standard: 1840 - 1914

A. General Studies in Collections and Economic History Surveys: most are repeated in the relevant sections below.


Vol I: Industrialization, 1700 - 1860

a) Joel Mokyr, ‘Accounting for the Industrial Revolution’, pp. 1-27


Vol. II: Economic Maturity, 1860 - 1939


n) Sue Bowden and David Higgins, ‘British Industry in the Inter-War Years’, pp. 373-402.

403-27.


B. The Gold Standard and International Payments


12. Anthony Harrison, The Framework of Economic Activity: The International Economy and


(b) chapter 4, ‘International Trade and European Domination, 1875-1914’, pp. 94-126.

(c) chapter 5, ‘International Factor Mobility, 1875-1914’, pp. 127-159.


21. Michael D. Bordo and Anna J. Schwartz, A Retrospective on the Classical Gold Standard, 1821 - 1931 (London, 1984). The following conference papers each conclude with comments from discussants and members of the audience. Only the papers relevant to this topic are listed below.


   c) T.J. Hatton, ‘Price-Determination Under the Gold Standard: Britain, 1880 - 1913’,
pp. 137-56.


2010).


C. **Money, Prices, Banking, and Business Cycles in the British Economy: Depressions and Booms, 1873-1914:**

Note: Many of these readings concern in particular the debate as to whether real or monetary factors played the more important role in price movements and business cycles, especially during the period of the so-called ‘Great Depression of 1873-1896.’


4. J. Pedersen and O. S. Petersen, An Analysis of Price Behaviour (Copenhagen, 1938). Also quite relevant, with more European price data.


   (b) chapter 2, ‘Cycles in the British Economy, 1790-1914’, pp. 31-57.


(a) Introduction by the editors, pp. 1-73 (skim read).

(b) W. W. Rostow, ‘Cycles in the British Economy, 1790-1794', pp. 74-96. [From chapter 2 of W.W. Rostow, The British Economy of the Nineteenth Century
(Oxford, 1948).]

(c) A. G. Ford, ‘British Economic Fluctuations, 1870-1914’, pp. 131-60. [Reprinted from The Manchester School of Economic and Social Studies, 37 (1969).]


(b) chapter 2, ‘The Juglar Pattern’, pp. 33-68.

(c) chapter 3, ‘The Kondratiev Price Swing’, pp. 69-93.

(d) chapter 5, ‘The British Climacteric’, pp. 112-34.

(e) chapter 6, ‘The Rate of Growth’, pp. 135-57.


47. Charles Kindleberger, Keynesianism vs. Monetarism: And Other Essays in Financial History (London, 1985), especially:


1986).


D. Banking and Financial-Investment Institutions, 1840 - 1914


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39. Michael Costeloe, *Banks and Bondholders: British Foreign Investors and Mexico’s Foreign


51. Ignacio Briones and André Villela, ‘European Bank Penetration during the First Wave of Globalisation: Lessons from Brazil and Chile, 1878 - 1913’, European Review of


63. Jeanette Rutherford, David R. Green, Josephine Maltby, and Alastair Owens, ‘Who Comprised the Nation of Shareholders? Gender and Investment in Great Britain, c.


E. Foreign Trade, Foreign Investments (Capital Exports), and International Finance:


   (a) A. J. Brown, ‘Britain and the World Economy.’


   (c) S. B. Saul, ‘The Export Economy.’


   (a) Brinley Thomas, ‘The Historical Record of International Capital Movements to 1913.’ [Reprinted in Brinley Thomas, Migration and Urban Development (London, 1972).]


   (a) Editor's Introduction, pp. 1-14.


39. Irving Stone, ‘British Direct and Portfolio Investment in Latin America Before 1914',


   
   
   
   (c) Michael Edelstein, ‘Foreign Investment and Empire, 1860-1914’, pp. 70-98.


   (a) ‘From Dependence to Autonomy: Judgements on Trade as an Engine of Growth’, pp. 139 - 54. [Original essay, published for the first time in this volume.]
   


   (b) chapter 4, ‘International Trade and European Domination, 1875-1914’, pp. 94-126.
   (c) chapter 5, ‘International Factor Mobility, 1875-1914’, pp. 127-159.


61. Peter Temin, ‘Capital Exports, 1870 - 1914: An Alternative Model’, and: Sidney Pollard, ‘Comment on Peter Temin's Comment’, both in: 


(November 1991), 665-82.


103. Geoffrey Jones, Merchants to Multinationals: British Trading Companies in the Nineteenth


Connections between Maritime and Migration Networks, Research in Maritime History no. 33 (St. John’s, Nfld: the International Maritime Economic History Association, 2007).


144. Nancy Henry and Cannon Schmitt, eds., Victorian Investments: New Perspectives on Finance and Culture (Bloomington and Indianapolis: Indiana University Press,
2009).


F. British and European ‘Imperialism’, 1870 - 1914

[i]. Studies on the ‘New Imperialism’, 1870 - 1914:

1. L.S. Woolf, Empire and Commerce in Africa: A Study in Economic Imperialism (1919; revised edition New York, 1951.)


Various studies: see especially Michael B. Brown, ‘A Critique of Marxist Theories of Imperialism’.


42. Bernard Semmel, The Liberal Idea and the Demons of Empire: Theories of Imperialism from Adam Smith to Lenin (Baltimore: Johns Hopkins Press, 1993).


47. E. Spenser Wellhofer, Capitalism, Democracy and Empire in Late Victorian Britain, 1885 - 1910 (Basingstoke and London: Macmillan, 1996).

48. Anthony Howe, Free Trade and Liberal England, 1876 - 1946 (Oxford and New York:


[iii] **The British Empire and ‘Imperialism’, 1870 - 1914**


6 and 7.


II. GENERAL READINGS: for the European Continent

A. European and International: General Topics


   (b) ‘Reflections on the Concept of ‘Prerequisites’ of Modern Industrialization’, pp. 31-51. [From *L'industria* (Milan, 1952), no. 2]


   (b) David Landes, ‘Technological Change and Industrial Development in Western Europe, 1750-1914’ in Part I (chapter 5), pp. 274 - 601, especially pp. 353-420. [Republished in an a revised, expanded version below in

(c) Folke Dovring, ‘The Transformation of European Agriculture’, in Part II (chapter 6), pp. 604-72.


   (a) Alexander Gerschenkron, ‘Reflections on the Concept of “Prerequisites” of Modern Industrialization’, pp. 9-29. [Reprinted from L’industria (Milan, 1957).]


   (a) ‘The European Economy in the Late Eighteenth Century’, pp. 25-117.


   g) Claude Fohlen, ‘Entrepreneurship and Management in France in the Nineteenth Century’, pp. 347 - 381.


(e) T. Kemp, ‘Economic and Social Policy in France’, pp. 691 - 751.
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(f) Volker Hentschel, ‘German Economic and Social Policy, 1815 - 1939’, pp. 752 - 813.


89. Forrest Capie, *Tariffs and Growth: Some Insights from the World Economy, 1850 - 1940*


152. Angela Redish, Bimetallism: An Economic and Historical Analysis (Cambridge and New York: Cambridge University Press, 2000).


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References to Part IV: pp. 910-30.


<table>
<thead>
<tr>
<th>#</th>
<th>Reference</th>
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</table>


Vol. I: 1700 - 1870

Vol. II: 1870 to the Present

a) Guillaume Daudin, Matthias Morys, and Kevin O’Rourke, ‘Globalization, 1870 - 1914’, pp. 5-29


Note: this set of historical studies is organized not by the nation state (as is my course), but by general topics and the chief economic sectors of the European economy (including Great Britain). The second volume obviously continues for almost a century after World War I, the terminal date for this course; but Part I of Volume II does cover the very relevant period 1870 to 1914 (pp. 1-129.)

B. The Smaller Countries of Continental Europe

Iberia:

   Vol I: O Século XVIII
   Vol. II: O Século XIX
   Vol. III: O Século XX


Italy:


The Austro-Hungarian and Ottoman Empires


The Low Countries


Scandinavia and Finland:


QUESTIONS:

1. What was the international gold standard, from c.1860 to 1914: how did it evolve; how did it work; what were its monetary and foreign exchange requirements?

2. What did the gold standard mean in terms of national of national commercial, monetary, and fiscal policies? What restrictions did adherence to the gold standard impose on national governments in terms of autonomy or independence in their economic policies? Were the gold standard and Protectionism incompatible? Did the international gold standard work best under Free Trade or Protectionism?

3. What role did money, monetary forces, gold, and the international gold standard play in European business cycles and secular price movements (inflation and deflation), 1840-1914?

4. Discuss the significance of the international gold mining booms of the 1840s and 1890s.

5. What impact did international increases in the gold supply have upon national money supplies, from the 1840s to 1914?

6. How well did the international gold standard work in moderating or influencing international economic cycle movements? What role did the Bank of England play in the operation of the international gold standard and in these international economic fluctuations.

7. Were monetary or real factors more important in determining the character and extent of international economic fluctuations, from the 1840s to World War I?
### British Foreign Trade Components, 1801/10 - 1901/10


<table>
<thead>
<tr>
<th>Decade</th>
<th>Export Index</th>
<th>Exports - Imports</th>
<th>Balance + Services + Dividends &amp; Interest</th>
<th>= Balance on the Current Account</th>
<th>Accumulated Balance of Overseas Investments*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1801-10</td>
<td>1801-10</td>
<td>1801-10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1801-10</td>
<td>100.0</td>
<td>41.05</td>
<td>50.95</td>
<td>-9.90</td>
<td></td>
</tr>
<tr>
<td>1811-20</td>
<td>101.3</td>
<td>41.60</td>
<td>49.80</td>
<td>-8.20</td>
<td></td>
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<tr>
<td>1821-30</td>
<td>89.2</td>
<td>36.60</td>
<td>47.05</td>
<td>-10.45</td>
<td>12.40</td>
</tr>
<tr>
<td>1831-40</td>
<td>110.0</td>
<td>45.15</td>
<td>63.70</td>
<td>-18.55</td>
<td>16.35</td>
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<tr>
<td>1841-50</td>
<td>140.0</td>
<td>57.45</td>
<td>79.35</td>
<td>-21.90</td>
<td>18.70</td>
</tr>
<tr>
<td>1851-60</td>
<td>259.6</td>
<td>106.55</td>
<td>137.20</td>
<td>-30.65</td>
<td>33.60</td>
</tr>
<tr>
<td>1861-70</td>
<td>404.6</td>
<td>166.10</td>
<td>223.60</td>
<td>-57.50</td>
<td>62.50</td>
</tr>
<tr>
<td>1871-80</td>
<td>537.0</td>
<td>220.45</td>
<td>313.85</td>
<td>-93.40</td>
<td>89.90</td>
</tr>
<tr>
<td>1881-90</td>
<td>570.8</td>
<td>234.30</td>
<td>331.95</td>
<td>-97.65</td>
<td>97.80</td>
</tr>
<tr>
<td>1891-00</td>
<td>584.0</td>
<td>239.75</td>
<td>385.20</td>
<td>-145.45</td>
<td>94.55</td>
</tr>
<tr>
<td>1901-10</td>
<td>845.9</td>
<td>347.25</td>
<td>505.55</td>
<td>-158.30</td>
<td>123.55</td>
</tr>
</tbody>
</table>

**Explanation of the Table:** Subtract imports from exports to obtain the balance on the commodity account, which was always negative (i.e. the British imported a greater value of goods than they exported). To that negative balance on the commodity account, add the ‘invisibles’ consisting of ‘services’ (i.e. shipping, banking, insurance revenues, etc.) and those dividends and interest payments received on foreign (overseas) investments, in order to obtain the final balance on Current Account, which was always positive. Gold movements and other items on Capital Account are not shown here.

**The Equation:** Exports - Imports = Balance on the Commodity Account + Services + Dividends & Interest = Balance on the Current Account.

* The accumulated net balance of overseas investments (foreign credits) includes the retained or re-invested interest and dividends on accumulated foreign investments. Gold movements and other items on the capital account are not given.
Source: Calculated from Peter Mathias, *First Industrial Nation* (London, 1983), Table VII, p. 305.
BRITISH CAPITAL EXPORTS:

I. 1792 - 1815: British government finances the anti-French Alliance during the Napoleonic Wars assisted by private investments
- becomes a net creditor nation and displaces the Dutch as the world’s leading capital exporter.

II. 1815 - 1836: British Private Investments in financing Foreign Government Bonds/Debentures in Europe and the United States: financing public works and transportation
- 1836: banking crisis in the United States forces 9 American state governments to default on their debts and bonds, producing a financial/credit crisis in Great Britain, leading to a major commercial-industrial depression, 1836 to 1842.

III. 1842 - 1873: British Foreign Investments in European, North American, and Asian/African/Latin American Railways and other Transport
- British exported physical railway capital in railway iron, locomotives, rolling stock, etc; British investments funds used to purchase British equipment and pay British engineers

IV. 1873 - 1914: Era of ‘New Imperialism’ or ‘Capitalist Imperialism’:
- ushered in by international financial crisis of 1873 and the onset of the ‘Great Depression’ → Return to Protectionism
- Marxist View: that capital exports were essential ingredient of imperialism and necessary to sustain international capitalism
- British Capital Exports: in widely diversified assets in both colonial and non-colonial areas of the world
- Britain as world’s leading capital exporter and as a ‘mature creditor nation: receiving annually inflow of dividends and interest matching outflow of capital investments.