

Globalization and the Poor Periphery Before 1950

by Jeffrey Williamson

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This book is a revised version of the 2004 Ohlin Lectures delivered at the Stockholm School of Economics. These lectures, set up to honor the scientific achievements of Bertil Ohlin (Nobel laureate, 1977), are devoted to important economic issues in areas that were of interest to him. Typically, a well-known economist is invited to discuss a topic in which s/he has expertise, and books like this aim at carrying the message of the lectures to a wider audience. During the last two decades or so, eminent international economists have addressed topics such as protectionism (Jagdish Bhagwati, 1988), globalization and input trade (Ronald Jones, 2000), and offshoring in the global economy (Robert Feenstra, 2008), among others.

Jeffrey Williamson, a noted economic historian, now joins this distinguished group and discusses some aspects of international trade in a historical perspective, from about 1800 to just after the end of the Second World War—“the first global century.” He is particularly interested in the economic impact of northwest Europe (the core) on other European countries, the Middle East, Africa, Asia, and Latin America (the periphery). It’s an exploration of how the Industrial Revolution and the parallel revolution in water and land transportation affected economic growth, distribution, and trade policy in the periphery—in what came to be known as underdeveloped economies, developing countries, and, later, the Third World. Williamson and his collaborators have been working in this broad area for a long time (the earliest citation is from 1980), so the lectures also serve as a useful survey of the main research contributions during the last three decades or so. The forces at work were monumental (two revolutions), the time period long (about a century and a half), and many countries with diverse economic structures, political systems, and geography were involved. Accordingly, to do justice to the many complex issues that were discussed and debated, contemporaneously and in later research, one needs a good grasp of theory, a keen sense of history, and a deep interest in policy matters, and Williamson deploys them all in full measure. It is fitting

that the lectures are dedicated to the memory, and draw heavily upon the contributions of, “three giants”—Moses Abramovitz (who introduced Williamson to the powerful mix of theory and history so abundantly on display here), Ohlin himself (for theoretical tools, particularly the Heckscher-Ohlin model), and W. Arthur Lewis (for his brilliant insights into how theory, history, and policy intersect in the process of economic growth).

The main themes and the highlights of the narrative are nicely summed up in Chapter 1, the shortest chapter in the book. Two forces are identified: first, “... a worldwide transport revolution that served to integrate world commodity markets;” and second, “... the derived demand for primary product intermediates, such as cotton and metals, which soared as manufacturing production led the way in the core.” The invention of steamships and railroads drastically reduced transportation costs everywhere, so many heretofore non-tradable goods began to be traded far and wide, especially primary products from the periphery which could now reach the core at much lower freight rates. Relative prices of primary products started an upward trend that, in due course, led to the migration of labour from “surplus-labour” to “scarce-labour” regions, the latter also attracting financial capital flows from the core. Over time, technological progress began to reduce the demand for primary products, and massive imports of low-priced manufactured goods contributed to deindustrialization in the periphery. The long-run secular boom was succeeded by a bust, and many countries retreated to an antiglobal, protectionist mode after World War I, with far-reaching consequences for economic growth, distribution, and trade policy in the periphery.

The rest of the book deals with these developments and their ramifications in two broad sections—“Impact on prices, trade, and distribution” (Lecture 1), followed by a lengthy discussion of “Impact on economic development and policy.” Within each segment, several chapters are devoted to a review of specific issues such as, effects on the terms of trade in the periphery, convergence of relative factor prices, deindustrialization and underdevelopment, etc.

Williamson’s treatment of such issues is thorough and carried out within the framework of pure theory of international trade. Accordingly, he focuses on relative prices, distribution of factor incomes, and other real magnitudes. There are no new theoretical insights here, nor much discussion of macroeconomic factors or exchange rates or the role of monetary policy (gold or sterling balances, for example), but he carefully tries to apply the propositions derived in the trade theory literature—for instance, the Stolper-Samuelson model and the work of Ronald Jones, especially his classic paper on the specific-factor model (1971)—to frame the issues and consider a number of empirical studies. Chapter 4 is an excellent example of this approach, devoted to a detailed discussion of relative factor price convergence in theory and practice. His reexamination of the Prebisch-Singer hypothesis in light of recent empirical studies is illuminating. This comprehensive overview of the applied work in this area is arguably the strongest aspect of these lectures which would appeal to economists and others alike.

The book concludes with a coda: “Some guarded lessons from history.” Williamson notes some of the key differences between the two centuries, and offers some thoughts on how the second global century has fared since 1950. The biggest difference is that more and more countries have been coming round to adopting a proglobal stance, in sharp contrast with the high tariffs and other antiglobal policies so widely implemented in the periphery after 1914. Import substitution and other protectionist policies were the order of the day in many Third World countries well into the 1960s and even later. The periphery specialized in primary products in the premodern era, and now it specializes in labour-intensive manufactures, he observes. China’s recent economic gains, although not mentioned in the book, are presumably a shining example of how international trade is helping the process of industrialization and economic growth in many countries. The old international economic order forged together by the worldwide transport revolution has made way for a new order, driven by the information technologies (IT) revolution and other factors. Williamson concludes on an optimistic—or at least a non-pessimistic—note that “... the powerful antiglobal reaction observed in the autonomous premodern and post-World War II developing periphery is far less likely to be observed in the twenty-first century.”

Reference

Jones, R.W. 1971. A three-factor model in theory, trade, and history, in *Trade, Balance of Payments, and Growth*, edited by J. Bhagwati et al. Amsterdam 1971.