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The late nineteenth and late twentieth centuries are similar in many respects. Each era has been characterized by increased economic growth, economic convergence, and globalization. From 1914 to 1950 however, the world economy experienced lower rates of growth, a retreat from globalization, and economic divergence. Will the world economy reverse its surge toward globalization as it did a century ago? This article examines the historical debate about the nineteenth century globalization boom and links it with the globalization and inequality debates of the late twentieth century.

Globalization and Inequality in the Late Twentieth Century

Much of the scholarly literature on the relationship between globalization and inequality has focused on the case of the United States, but a number of recent studies have examined globalization's effects on developing countries as well. During the period from 1973 through the 1980s, inequality rose in the North, in part due to globalization forces. Economic theory and a few studies argue that such rises in inequality would be coupled with a more egalitarian south.

The recent widening of wage inequalities in the United States occurred simultaneously with a trend toward rising trade liberalization and the increased immigration of unskilled workers from developing countries. George Borjas has estimated that these forces have contributed to 15 to 20 percent of the relative decrease in the wages of high school graduates compared with college graduates: trade accounting for one-third, immigration two-thirds. Have these patters resulted in stimulating the relative demand for unskilled labor in the developing countries and thus make developing countries more egalitarian?

In a comprehensive study, Adrian Wood also contends that the fall in relative wages of less skilled northern workers is caused by the reduction in trade barriers and by an increasing number of southern workers with a basic education. His detailed empirical analysis concludes that the ratio of the unskilled to the skilled wage should then rise in the South and fall in the North, producing rising inequality in the North and falling inequality in the South. While Wood's assertions are consistent with economic theory, recent studies show that a number of countries in Latin America and East Asia have experienced increases, not declines in wage inequality after trade liberalization.

Globalization and Inequality in the Late Nineteenth Century

From 1854 to 1913 there was a convergence in the economic distance between rich and poor countries. Much of this convergence is the result of both a trade boom and mass migrations. The trade boom has been attributed to 10 to 20 percent of the convergence in GDP per worker hour and in the real wage. In addition, it meant rising wages for unskilled relative to land rents and skilled wages in poor countries, and that unskilled wages fell relative to land rents and skilled wages in rich countries.

The correlation between real wages or GDP per worker hour and migration is also positive and very significant. The poorest Old World nations experienced very high emigration rates while rich New World nations tended to have high ones. Because the migrant populations consisted of largely unskilled workers, receiving countries' labor markets became flooded at the bottom of skill ladders. The immigration related trends imply increased inequality in rich countries, and the emigration induced trends reduced inequality in the Old World.

Two kinds of evidence can be used to investigate trends in inequality during the late nineteenth century: the ratio of unskilled wages to farm rents per acre, and the ratio of the unskilled wage to GDP per worker hour. In previous work with his colleagues, the author constructed a panel database documenting the convergence of the ratio of unskilled wages to farm rents among late nineteenth century countries. This database reveals that from 1870-1913 farmland was plentiful and cheap in the New World, while scarce and expensive in the Old World Therefore, the ratio of wage rates to farm rents was high in the New World, low in the Old. When looking at the wage-rental ratios, in the fourteen countries sampled, because landowners were near the top of the income pyramid inequality rose in the rich, labor scarce New World, and fell in the poor, labor-abundant Old World. Examinations of the ratio of unskilled workers's wages to GDP per worker hour, or by computing the annual percentage change in the index reveal similar results.

The Impact of Globalization on Inequality Trends, 1870-1913

Economic theory argues that in eras of unregulated international migration, poor nations will have the highest emigration rates and rich nations will have the highest immigration rates. In addition, under liberal trade policy, poor nations should export labor-intensive products and rich countries should import them.

As far as the impact of mass migration, where immigration increased the receiving country's labor supply, inequality rose, conversely, when emigration reduced the sending country's labor supply, inequality declined. Some nations in Europe began to back away from trade liberalism after 1880. Before that period the correlation between rising inequality and initial labor scarcity was better than from the period 1890 to 1913, the era of rising protectionism. While it is impossible to really separate globalization effects into trade and migration with these regressions, an effort was made by creating a trade-globalization-impact variable as the interaction of initial labor scarcity and openness. The results maintain under these conditions. Overall then, there is as strong support for the impact of migration on income distribution and as weak support for the role of trade. Another study found that globalization was responsible for more than half of the rising inequality in rich nations and for more then a quarter of the falling inequality in poor nations. Technological change, here too a culprit, accounted for 40 percent of the rising inequality in rich countries previous to World War I and to close to 50 percent of the decline in inequality in poor ones.

There was a great reversal in these trends during the period 1921 to 1938. First, there was a divergence in wage differentials between rich and poor nations. Second, in a complete reversal, inequality rose more sharply in poorer countries than in richer ones, where is some cases it actually declined.

Some Things Never Change

While there are striking similarities between the late nineteenth and late twentieth centuries with respect to globalization and inequality, some differences should be noted. First, the more egalitarian outcomes of poor countries as a result of globalization in the first period has not in large part been echoed in the second. As far as migration, it seems to have more of an impact on inequality than trade did in the late nineteenth century. One thing is true, that globalization and convergence ceased between 1913 and 1950. Rising inequality in rich nations came to a halt when immigration was kept away by quotas and when a more protectionist area arose. Will such a retreat occur again?