

How the First Globalization Survived Populism

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"From New Hampshire's icy mountains,
From Florida's coral strand,
To where the Rocky ranges
Roll down their golden sand,
Protection! oh, Protection!
The joyful sound proclaim,
Till each remotest section
Has learned the tariff's name."

[Hymn sung at the 1881 National Tariff Convention, Philadelphia]

Globalization today confronts challenges more menacing than any it has had to overcome in recent times. With the election of Donald Trump in the United States, populist and anti-globalization forces scored their greatest victory yet. The prospect elsewhere is also dark. The near-misses of far-right candidates in Austria and Netherlands, the Brexit vote in Britain, the Five Star Movement in Italy and the electoral tallies of left and right anti-globalization candidates in France reflect new high levels of hostility to globalization. In mainstream parties, protectionism and border level barriers to immigration are becoming ever more respectable. Support for new international agreements on trade and investment has disappeared. Even a treaty between the European Union and Canada nearly ended up on the rocks of opposition from one Belgian region. Cross-border capital flows are in decline.¹ In 2016 for the first time in a period of economic growth, the volume of U.S. trade declined. Eighteen years ago, protests against globalization at the Seattle World Trade Organization meetings involved marginal groups, "turtle defenders and Teamsters." Today anti-globalization mobilizes core groups in the population.

¹ <https://www.bis.org/statistics/rppb1710.htm>

We have been here before. Over a century ago the first globalization of 1870-1914 also aroused major political threats but countries managed to stave them off until war broke out in 1914. There are lessons we can learn from that period about how to keep borders open in our own times. While the word "globalization" did not come into use until the mid-twentieth century, the facts and pressures of global market integration were there.² Flows of capital, people, and trade across the borders of major industrial countries in the last quarter of the nineteenth century were as great or greater than today. Historians and economists who have compared globalization today with that of the forty years before the first world war invariably point out big differences between the global economy then and now. But important points stand out from that earlier period about the politics of defending open borders against groups demanding protection.

Among the lessons we might take from the first globalization are approaches to preserving international openness quite different from those most often debated today. The approaches to saving globalization that worked well in the past were ones focused on building political coalitions offering protection and broad political, fiscal and social reforms, rather than individually-targeted solutions. Such programs are ones we ought to consider today. Most current proposals for saving globalization focus on individuals: on compensating and retraining people who have lost jobs because of imports or factory offshoring. Many of the early analyses of Trump's base pointed to white working class males who had lost jobs in localities heavily hit by imports.³ The lesson drawn from these early analyses was that defections from the Democratic electorate might have been averted if workers had been fairly compensated or educated for other jobs. Subsequent analyses of the Trump electorate showed that Trump voters included not only white working class males, but people across all class categories in communities

² Bordo, Taylor, Williamson 2003; Bairoch 1996

³ Autor et al 2016; Bonvillian 2016; Vance 2016

that have been hard hit by deindustrialization and globalization. In these communities the chances that children will do better than or even as well as their parents have virtually disappeared.⁴ Again the lessons drawn mostly focus on providing better educational opportunities for individuals.

If we paid more attention to the rise of populism in Nordic countries, we might be more skeptical about whether strategies of compensating and retraining unemployed workers or of providing good vocational education and advanced skills to youth are sufficient as a defense against populism. Even in Denmark, Sweden, and Norway where policies aimed at individual compensation and reactivation have been reasonably well implemented, they have not prevented the rise of populist parties. In Norway, the populist party is part of the government coalition; in Denmark, they are the second largest party and close to entering government; in Sweden, the populists have the third highest number of members of parliament. Anti-immigrant sentiment has a large part in feeding these populist movements in Nordic countries as in the rest of Europe. It did so during the first globalization as well.

Anti-Globalization Politics the First Time Around

First consider briefly the severity of the threats to the first globalization in the last quarter of the nineteenth century in the major industrial countries. As in our own times, those challenges clustered around trade, immigration, and the movement of capital across borders. In the United States, William Jennings Bryan's campaign for the presidency in 1896 against William McKinley was the high-water mark of populist mobilization. The arcane complexities of monetary standards and their impact on the economy had become the object of intense public interest and controversy in the last

⁴ Chetty et al 2016

decade of the nineteenth century. Complicated as a bimetallic versus a gold standard was as an issue, this was the response to global capitalism that captured the broadest and most intense popular attention. *Coin's Financial School*, a 1894 fiction claiming to be the transcription of lectures of a brilliant young lecturer who defied so-called financial experts and unmasked the interests underlying support for the gold standard, was a best-seller that sold around a million copies.⁵

The main plank of Bryan's program was putting the United States on a bimetallic or silver monetary standard--- to save mankind from death on a "cross of gold" as Bryan shouted to thunderous applause in his July 9, 1896 speech at the Democratic National Convention. What has been largely overlooked in analyzing the tremendous political passions stirred up by the gold standard and Bryan's campaign is that the two candidates had fundamentally different views not just about silver and gold, but about how open or closed the American economy ought to be to the international economy, in today's terms, about globalization and national sovereignty. As Bryan put it in his attack on McKinley at the convention: "[N]o personal popularity, however great, can protect from the avenging wrath of an indignant people the man who will either declare that he is in favor of fastening the gold standard upon the people, or who is willing to surrender the right of self-government and place legislative power in the hands of foreign potentates and powers."⁶

Trade protectionism, too, had considerable support, and Republicans like Secretary of State James Blaine saw it as a promising issue to replace "the bloody shirt" on the Republican party's platform as that symbol of Civil War sacrifice and victory wore thin. At the start of the 1896 electoral campaign, William McKinley, too, thought "talk tariff, think tariff, dream tariff" was the right strategy. He quickly came to see that the monetary standard was what voters zeroed in on first, though he maintained tariff

⁵ Harvey 1983 [1894]

⁶ cited in Rove 2015, 275

protection as a major part of his program, particularly in addressing industrial audiences.⁷

Bryan came close to winning. If he had, America's openness to the international economy would have been sharply reduced. By the end of the nineteenth century, all other major industrial countries were on a gold standard. In order to implement a silver or bimetallic standard, the United States would have had to virtually wall off the American economy from international monetary flows. Some kind of capital controls would have been essential. Otherwise the abundant stocks of silver in the world from countries that had already moved to a gold-based currency would have flooded into the United States, a point even pro-silverites recognized. Testifying before the United States Congressional commission of 1876 that was investigating the impact of different monetary standards, witnesses favorable to silver acknowledged that unless Britain and Germany joined in, the United States could not adopt a bimetallic or silver standard and still remain open to the global economy. As one speaker put the point in a rhetorical question: "Shall our country make itself a sort of financial cess-pool for draining away the silver refuse of Europe, so long of highest use and beneficence, now made an unwholesome rejection of the bodies-politic?"⁸ Whatever the political elites and the interest groups directly affected by the monetary standard thought about the question, however, the fact was that millions of Americans with only distant personal stakes in the issue rallied to the Populists and Bryan because they had come to believe that their family's future and the country's fate depended on national control, silver, and closing the borders. At the same time, voters in constituencies well beyond the bankers opted for McKinley and gold. Tariffs and trade protection were a distinct second-best offer at the time, but McKinley promised them too, in order to win over enough of the urban industrial electorate to carry the election.

⁷ Rove 2015, 242

⁸ United States Monetary Commission 1879, 82

The big waves of immigration into the United States in the last quarter of the nineteenth century gave rise to another powerful surge of anti-globalization politics around immigration. Hostility to differences of race and religion and politics that built on those cleavages were as old as the American republic itself, but mobilizing nativist resentment of European immigrants developed only from the 1880s. The manifestations ranged from lynchings in the workplace to union demands for restricting immigration to public hysteria about foreign anarchists and terrorists that peaked around the Haymarket Affair (May 4, 1886). John Higham's study of immigration politics retrieved some of the reactions of the times from mainstream publications: "The enemy forces are not American [but] rag-tag and bob-tail cutthroats of Beelzebub from the Rhine, the Danube, the Vistula, and the Elbe./..These people are not Americans, but the very scum and offal of Europe./...Our National existence, and, as well, our National and social institutions are at stake."⁹

In Europe, too, in the last quarter of the nineteenth century, the impact of global markets provoked deeply hostile political reactions and demands for closing the borders to immigrants, to trade, and to capital flows. In those days in Europe globalization's enemies were not populist parties, but mainstream parties representing interests of farmers and factory workers, trade unions, and business groups. Particularly in times of economic stress, like the great depression of the 1870s or in the wake of the 1907 banking crisis, globalization's enemies threatened to close borders. The fall in agricultural prices with the arrival of wheat from America and Russia led to a wave of demands for tariff protection culminating in the "Iron-Rye" tariffs in Germany in 1879 and in the Méline tariff in France in 1892. In Britain at the turn of the century Joseph Chamberlain forced a major split in the Liberal Party over free trade and campaigned for tariffs in the hotly fought election of 1906. Immigration, also aroused intense

⁹ Higham 1955, 54-55

antagonism. The immigration of workers from southern and eastern Europe into the fields and mines of Germany and France met resistance that was often violent.

Defending Open Borders: Protectionist Concessions

To beat back threats to an open economy, supporters of globalization—parties, interest groups, governments—groped their way towards two different strategies: first, concessions like tariffs that slowed the rate of change without diverting its course; and secondly, coalition-building on reform programs that brought together strong supporters of globalization with groups that had more mixed and conflicted interests in open borders. Across a great diversity of national cases in the period 1870-1914, it is possible to identify these two general approaches at work.

Most of the concessions in the past to demands for protection took the straight-out form of tariffs and quotas, which multiplied rapidly in the last quarter of the nineteenth century. These protectionist measures largely served to counter-balance declining transportation costs. Some free trade supporters explicitly accepted a dose of protectionism as the necessary price to pay for leaving the borders mostly open to cross-border exchange. The key fact about protectionism in the first globalization is that while it slowed the move to global market integration, it did not stop it. This was a radically different outcome from the situation brought about by the tariffs and quotas adopted in the 1920s and 1930s. Despite protectionist legislation in most industrial countries except Britain, there was major commodity price convergence over the period of the first globalization, as Findlay and O'Rourke (2003) and O'Rourke and Williamson (1994, based on Harley 1980) document. Relative commodity prices in key markets narrowed. Liverpool wheat prices were 57.6 percent higher than Chicago's in 1870, down to 17.8 percent higher in 1895, and only 15.6 percent higher in 1913. In the case of France, for example, despite new tariffs on grain and on some manufactured goods,

volumes of trade still increased and imports rose from 18.2% of GDP in 1887-96 to 20.3% in 1907-13.¹⁰ About a quarter of the shift can be attributed to liberalizing policies with the rest of the convergence resulting from lower costs of transportation.¹¹ While the spread of protective tariffs from the 1870s on initially slowed the rate of growth of trade, in the two decades before the war the rate of growth in exports of even most of the protectionist countries was higher than it had been in the ten years before the passage of the tariffs.¹² The bottom line was significant advance towards global market integration with rising proportions of national economies involved in trade.

Some of the politically most sensitive concessions involved immigration.¹³ Until the last quarter of the 19th century, the United States had had a virtually open borders policy with little Federal involvement. (The 1882 Chinese Exclusion Act was a flagrant exception.) The massive entry of southern and eastern Europeans at the turn of the century put the wages of unskilled and low-skilled American workers under pressure. Unions were divided in their reaction to this. Unions with large numbers of members who themselves had emigrated from those parts of the world were reluctant to block the flows, while other unions wanted controls. The compromise was a law (1885) blocking contract labor---workers recruited abroad by companies who paid their passage and employed them on arrival. These immigrants were especially resented because they were paid less than going wages and often used as strike breakers. "Mr. Morton's Gardeners. Were They Brought Here under Contract?" queried a scandalized *New York Times* article (August 22, 1888) about English gardeners found on the Rhinebeck estate of the Republican Vice Presidential candidate Levi Morton. Concerns about terrorists among immigrants also surfaced. At a Congressional hearing on

¹⁰ Lévy-Leboyer and Bourguignon 1985, 45

¹¹ Lindert and Williamson 2003, 233

¹² Bairoch 1989, 90

¹³ Higham 1955

contract labor, a witness from a mainly Jewish union was questioned about how many of the “Russian Hebrews” entering the country were anarchists. (Response: only a handful.)

The ban on contract labor was implemented with new bureaucracy. Ellis Island was established as the main entry point, and would-be immigrants had to prove their independence with proof that they had paid their own ship passage and had enough to live on for a month. The ban on contract labor was reinforced when President William McKinley appointed (1897) Terence V. Powderly, former leader of a militant labor group, the Knights of Labor, to head the administration of immigration checks at Ellis Island. The norm of independence of any single employer and resentment of employers who bring in foreign workers to replace native workers at lower wages is one that still has strong resonance today in opposition to H-1B visas, as the Southern California Edison case and others demonstrate. The contract labor ban had, however, little impact on the total number of unskilled and barely-literate immigrants coming into the country which continued to rise sharply towards the end of the century. But it was a concession to workers on a sensitive point, and it served to protect a general regime of openness until World War One.

Defending Open Borders: Reform Coalitions

The most important lessons from defending the first globalization involve building political coalitions between “natural” supporters of an open international order and other groups with more mixed and conflicted interests. By and large bankers were and are obvious defenders of open borders; industrial workers are not. Yet in the major European economies before World War One, workers and unions became key actors in the political coalitions supporting free trade, the gold standard, and open borders for capital mobility. British workers were ardent defenders of free trade, as might be expected because of British industrial predominance in the global economy in the last

quarter of the nineteenth century, but so, too, were French, German, and Belgian trade union and socialist movements.¹⁴ These working class movements and parties also supported free movement of capital across borders, though it was obvious, for example, that French capital sent to build Russian railroads or textile factories in Russian Poland was investment creating new jobs abroad and not at home and that goods made abroad might eventually turn up in the domestic market.

Across the European cases a number of common elements ---Socialist internationalism, concerns about the cost of food---partially explain the support for open borders from trade unions and working class parties that presumably had as much to fear as to gain from unrestricted cross-border economic flows. The internationalist ideological convictions of 19th and early 20th century unions and left-wing parties played an important role (even in the United States). French Socialist leaders could persuasively defend letting French capital be invested in Russia by arguing that Russian workers were brothers who also deserved to have a chance to improve their livelihoods. Today no American or European trade union leaders are likely to make such a case for the Chinese or Turks or Cambodians. But what remains relevant to our own times is that in the first globalization, the coalitions that supported free trade, immigration, and cross-border capital flows joined an open borders agenda with programs of political, fiscal, and social reform. Liberal free traders worked with Socialist party leaders to build programs that accommodated and reshaped the interests of both partners in the coalition.

Belgium is the country in which this coalition building has been most closely tracked by the economic historian Michael Huberman (2012). He has documented how "labor had successfully transformed debate on free trade into a project on social policy." In exchange for support for globalization, unions and parties of the Left demanded social reforms. Belgium had been far behind Germany, France and Britain in instituting welfare

¹⁴ Milhaud 1903

policies. But at the turn of the century the Belgian coalition of free traders and Socialists accelerated the passage of laws on old age pensions, accident compensation, and unemployment insurance legislation. The same coalition of free-trade liberals and labor pushed through legislation reducing tariffs and shifting the fiscal base of government revenues to a redistributive income tax.

These coalitions of free traders and social reformers took very different shapes in different countries. In Belgium, there was bargaining over trade opening and political reforms. In Britain there was passionate support for free trade across society, and this was based not only on a working class interest in cheap food---“big loaf versus little loaf”-- but on strong popular beliefs that freedom in trade was an integral part of basic civil rights.¹⁵ Even in Britain, free traders felt the need to buttress support for open borders with advocacy for welfare reforms. The 1906 elections were a landslide for the free trader Liberals who decisively beat back Liberal Unionist imperial protectionist challenges. The Liberals then promptly introduced the first elements of a welfare state: old age pensions, free school meals, and a proposal for national insurance. Lloyd George fought the 1910 election on fiscal reforms and a “People’s Budget” that linked redistributive taxes to free trade. In France and Germany, Socialists lined up with free traders because they saw this issue through the lenses of their old struggles with a nationalist or religious reactionary right. What allowed the Left to define positions on trade, immigration, and capital flows was that they could identify on the other side a familiar enemy in nationalism.¹⁶ Nowhere did globalization policies advance alone on their own economic merits, but always as linked to larger visions in which internationalism was defended as the outward face of a nation whose domestic order was on the move toward greater well-being and social justice.

¹⁵ Trentmann 1998, Trentmann 2008

¹⁶ Berger 2003, 2013; Milhaud 1903

The international economy of open borders which had survived protectionist politics, resentment and hatred of immigrants, and severe financial crises crashed to a close when war broke out in August 1914. As Harley Withers, a British financial journalist, described it a year later: "It came upon us like a thunderbolt from a clear sky. At the end of July, 1914, any citizen of London who was asked what a [debt]moratorium meant would probably have answered that there was not such a word. Possibly he might have said that it was a large extinct woolly beast with big tusks. If he was exceptionally well-informed in matters of finance he would have replied that it was some sort of device used in economically backward countries for blurring the distinction between *meum* and *tuum*. On the second of August we had a moratorium on bills of exchange. On the sixth of August we had a general moratorium."¹⁷ Stock exchanges around the world closed; borders hardened up. Globalization turned out to be reversible. At the end of the war, the new technologies of transportation and communication which had enabled global economic integration were all still operating, but the political coalitions which had built and protected globalization had been destroyed. Not until the early 1980s did levels of cross border economic flows return to what they had been on the eve of World War One.

Lessons for Saving Globalization in Our Times

The responses of political actors in the first globalization to demands for monetary, trade, and immigration controls stand in sharp contrast to policies that have prevailed in Western countries over the past two decades. In globalization this time around there have been relatively few concessions to opponents. Advances on the globalization trajectory have been so rapid since 2000 that they have left little time for adjustment. In

¹⁷ Withers 1915

the first two decades after World War Two, policies that freed up trade, reduced capital controls, and lowered barriers to immigrants were the product of party coalitions made up of very diverse interests. Advocates, foot-draggers, and opponents of globalization were able to come together on party platforms like those of the Democratic Party from Roosevelt until Clinton because the platforms included both lowering border-level barriers and a broad social reform agenda. But from the 1980s on, as neo-liberal policies triumphed across the board, the reform agenda was hollowed out. The coalitions have fallen apart. Globalization moved ahead alone, shorn of the reform agenda that had previously been its domestic legitimation.

The anger of voters who turned out to elect Donald Trump, discouragement and depression in rural areas and old manufacturing centers of the country, the wave of proposals from Washington to renounce old trade agreements, refuse new ones, close the borders to immigrants---all these suggest that globalization is in deep trouble in America. Most proposals to rescue it center around provision of individual compensation and retraining to those who have lost livelihoods because of imports and offshoring. Fairness and solidarity may justify such payments. But there's no good evidence to back up the claims that such policies would assuage the deep anxieties of the electorate about the impact of leaving the borders open to more or less unrestricted flows of people, money, and goods and services.

Drawing the lessons of the first globalization for our own times suggests three general approaches that go beyond individual compensation. First, we need to acknowledge that there's a problem of representation and voice. In the first globalization the parties and unions in the coalitions that advanced both free trade and social and fiscal reforms were organizations close to their base. They played an essential role in transmitting the grievances, demands, and aspirations of working-class and rural populations into public debate and political decision. In the United States from the Depression through the 1960s, the Democratic Party and trade unions were such

transmission belts. They are no longer. Unions have shrunk and today represent less than 7 percent of the workforce in the private sector. As for the Democratic Party, its critics claim with some justification that the party has jettisoned its links to workers for connections to Wall Street, Silicon Valley, and the educated elite. With no channels for voice, those most fearful of globalization remain isolated, angry, and vulnerable to the siren calls of populist politicians. Voice requires more than simple expression. It is true that nowadays anyone can tweet an instantaneous reaction to anything. But it is not just the volume or tone of demands that shape policy. What parties and unions and social organizations can do is to process the cacophony of individual expressions that might otherwise disappear in the cyber ether into useful social information and connect it to sites in which policies are being formulated. It is this function of transmission and transformation that makes it critical to build organizations that can bring the voices of those most directly affected by globalization into the arenas of policy-making.

Secondly, slowing the pace of integration of local and national markets into global markets may be a necessary step in the acceptance of globalization, as tariff protection was in the first globalization. This may be hard to justify for free-trade purists and, in the case of immigrants and refugees, even more difficult to justify morally. It is hard to decide where to draw a line or where to put up a border-level barrier when in principle one is committed to a borderless world. In the case of H1-B visas, for example, it is common knowledge that these entry tickets to the U.S. labor market are used not only to fill skilled positions that cannot be filled with U.S. workers, but also to bring in workers who will do the job at lower cost. Indeed in some cases, the H1-B jobs are already held by U.S. workers who have been required to train their replacements. Many of the jobs might be filled by U.S. workers if only companies were willing to invest more in training. But however inconsistent with theory, the practical consequences of not slowing the pace may be too dangerous to liberal democracy, as we saw for example in the reaction of the German public to the enormous surge of immigrants in 2016 and to

Angela Merkel's generous, courageous, but perhaps excessively optimistic statement of Germany's welcome.

Finally, to rebuild a coalition in support for globalization, support for open borders must once again be linked to a broad program of political, social and fiscal reforms. There are many obvious candidates: raising minimum wages, consolidating national health insurance, lowering financial barriers to post-secondary education for working and middle class children, tax reforms, tackling the sources of inequality. Constructing such coalitions in a period of slow productivity growth and after years of stagnation of middle class incomes will be difficult. But all the alternatives look even worse, both for an open economy and for liberal democracies.

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