

# Reassessing the Evolution of World Trade, 1870-1949

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The typical narrative regarding the evolution of world trade prior to World War II refers to a secular rise that started around 1870 and a subsequent collapse that began in 1914. This narrative, though, is based on measures of trade openness that do not fully take into account purchasing power differences across countries, as in the literature non-PPP-adjusted trade data are typically denominated by PPP-adjusted GDP data. The present paper seeks to resolve this inconsistency by constructing new trade share estimates for 51 countries spanning the period from 1870 to 1949 by combining historical import and export data with non-PPP-adjusted GDP values that we estimate via the "short-cut" method. Our estimates indicate a much more pronounced rise and fall of world trade over this period with trade shares being on average 32% higher than previously documented and the world's level of openness to trade in 1913 being comparable to that in 1974. In addition, performing a similar correction for purchasing power differences in the context of standard gravity regressions for the 1870-1939 period we found that the existing literature has overestimated the importance of income movements during this period relative to tariffs changes and the evolution of the gold standard.

