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Subsidies – In a Historical Perspective

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Abstract

The article provides a brief overview of some historical events involving the use of subsidies. From ancient Athens to the last century. In these cases, it offers a simplified way of explanation how these subsidies were used and with what economic effect. This includes the impact on the world economy and history too. Based on the examples provided, general conclusions are drawn not only about the effectiveness of subsidies, but also about the economy of each country in presence.

Keywords: Marketing Management, History, Trade, International Trade, Transportation, Logistic, Communication, Economy, Subventions, Production, Money Circulation, Keynes Theory, Nautical Discoveries, Roman Roads, Mayan Civilization, King Charles IV., Constantinople, History of Education in China, Napoleonic Wars, Suez Channel, Panama Channel, German Highways

Introduction

Subsidies are currently a highly topical and widely discussed subject in the business world. Both sides, for and against, passionately defend their positions. I am sometimes drawn into such discussions as someone who has access to and uses subsidy information, while also analyzing them [1]. Nevertheless the following article does not meet the requirements of a scientific paper, in terms of the structure of such a publication. But it uses examples of well-known historical facts to make conclusions about the current economic situation, from the perspective of Marketing Management [2].

I will start in ancient Athens. A new silver deposit was discovered there in the 5th century BC. However, Themistocles convinced the Athenians not to distribute the profits from this mine among themselves, but instead to use this wealth to build a new military naval fleet [3]. This fleet went on to defeat the Persian navy at Salamis, securing Athenian dominance over the Mediterranean Sea [4]. The result was control over the world's most significant trade for centuries. This was because whoever controlled navigation on the Mediterranean also controlled the trade between Asia, Africa and Europe, especially the commerce flowing from the Silk Road. An explanation will follow.

Next, I will use the example from ancient Rome. Rome had a professional army of mercenaries, paid for from the state budget. Although this army is primarily known for the battles their legions fought, less is said what the soldiers did when they were not fighting, which was most of their time. They built modern roads, prevented local wars and protected the established routes from raids and robbers [5]. The cost of maintaining such a large army across most of the Europe was not insignificant. However, by building high-quality roads that allowed transportation of vastly greater quantities of goods than before, over greater distances, and much more quickly, commerce benefited immensely. Furthermore, because the army guarded these roads, trade multiplied many times over. This is why ancient Rome became the wealthiest state in Europe.

Now, for a change, let's look across the ocean. From the 3rd century BC until the 10th century AD, due to vastly different global climatic conditions, present-day Mexico and the Yucatan Peninsula looked very different from how we know them today. There were no rain-forests and no monsoon rains; the climate was much milder and drier. Most of the Yucatan consisted of fields and meadows, which at that times suffered from droughts. Then, however, a number of Mayan city-states managed to reach an agreement to build high-quality roads between them. Also, because the Yucatan was plagued by droughts, the construction of irrigation canals began [6]. Both projects were funded from the budgets of the respective city-states. These interventions not only multiplied agricultural and food production, but also increased the volume of long-distance trade. Thanks to the resulting economic

effect, we refer to the period up to the 10th century AD as the Classical period of Maya civilization. Then, another global climate change occurred, bringing about the current climatic conditions. Agriculture began to decline and instead of trading, the city-states began to fight among themselves. This, in turn, made them easy prey for the conquistadors.

The next story takes place in China. There, as early as the 10th century AD, an elaborate system of state education was established and funded to train civil servants, although this incorporated some elements from even earlier educational processes. The reason was the need to administer vast territories, to enforce the state system and its laws, to keep records and manage taxes. So, once again, it was an economic interest that paid off for the Song dynasty profit [7]. For this reason, successor states and dynasties have adopted this principle further.

Another example comes from medieval Prague (Czech Republic). Due to a global climate change that occurred worldwide between the 10th and 14th centuries, agricultural production decreased significantly. This was not limited to the aforementioned Yucatan; in Greenland, grain cultivation ceased and the island became completely glaciated, while in Europe harvests dropped from two per year to just one harvest. And famines began. Prague was an important trade crossroads for the whole of Europe thanks to the confluence of the Berounka, Elbe and Vltava rivers. At that time, rivers were the most important trade routes. However, trade alone would not feed people, so the inhabitants of the cluster of towns that would later form Prague were struck by famine and people began to move to the countryside. To prevent this population outflow, King Charles IV used funds from the royal treasury to have the so-called "Hunger Wall" and Charles Bridge built [8]. But the construction of the wall and the bridge involved many other activities. Their construction required the establishment and operation of quarries, lime kilns, brick works, charcoal mines, forges, sawmills and more. This employed and supported many families. And at the same time, the bridge itself enabled the easy and rapid transportation of goods across the river on an important trade route.

For millennia, the wealthiest place on earth was the terminus of the Silk Road at the Mediterranean Sea. That is, in the area of the ports from present-day Israel, through Syria, to Lebanon. After all, the Bible itself refers to these places as the Promised Land. Yet, whoever controlled navigation on the Mediterranean Sea also controlled the entire trade between Asia and Europe. That is why the Phoenicians, the ancient Greeks, Carthaginians, Romans, Goths, Lombards, Crusaders, Arabs, Spanish, English and many others fought for dominance over these sea routes.

A critical point in the history of Mediterranean trade was the fall of the Western Roman Empire in the 5th century AD. This was followed by four centuries of turbulence and wars, during which the Eastern Roman Empire mostly controlled navigation and trade. But then in the 13th century, thanks to the intervention of the Venetians, Constantinople (present-day Istanbul) was first conquered by the Fourth Crusade. And with further help from the Venetians, it was finally conquered in the 15th century by Mehmed II (of the Ottoman Empire) [9]. The Venetians had an agreement with him that the Ottoman Empire would control the coast of the Near East, - that is, the terminus of the Silk Road, - while the Venetians would control navigation on the Mediterranean Sea. The mutual agreement remained in force until the end of the 15th century. But then the friction began, leading to a severe restriction on a trade over the Mediterranean Sea. The bulk of Silk Road goods began to be transported to Europe overland through Istanbul. Moreover, the Venetians and the Ottoman Empire came to dominate sea trade with the Spanish and Portuguese kingdoms.

This resulted in the Portuguese and Spanish voyages of discovery [10]. First around the Cape of Good Hope to India, and then, in an attempt to find a western route to China and India, to the discovery of the Americas. Both brought incredible profits to the Portuguese and Spanish, at the cost of several small naval expeditions. The cost of sending out Columbus' fleet was equivalent to the price of one royal dinner. But these trade expeditions also thoroughly shuffled the cards of world history. For example, the historical events mentioned above led to the Battle of Lepanto, the Siege of Vienna, and other historical turning points. The discovery and settlement of the Americas had a profound impact on all of the world history.

Back to the Chinese. During the Ming Dynasty, the state treasury paid for several expeditions to the Pacific, consisting of tens to hundreds of large trading junks [11]. As a result, from the 15th till the 17th century, they dominated all trade in the Pacific and Indian Oceans, as far as the eastern shores of Africa.

In the background of the all Napoleonic wars in Europe was England. Or rather English capital, which aimed to block its young French competitor as a part of the rivalry for European markets. That is why every peace treaty of this period primarily contains economic provisions [12]. Austria-Hungary was worst hit economically by these wars. Not only did it become heavily indebted to the English banks for decades, but the treaties signed blocked the industry of the Austro-Hungarian monarchy for 50 years. But these wars also completely changed the economic and political map of Europe. Economically, Austria-Hungary was saved only by its share of the profits from the operation of the Suez Canal [13], the construction of which it had helped to finance.

The history of the Panama Canal is relatively recent [14]. Its construction was originally planned by the Spanish, but it was initiated by Lesseps, the builder of the Suez Canal. However, he was pushed into bankruptcy. Ultimately, Rockefeller won the right to build the canal and used money from the US money to build it. There is no need to consider the economic importance of this channel. From a historical point of view, the wars in the background that allowed the canal to be built are also interesting. The USA financed the war to secure the independence of the territory from Colombia, which allowed for the creation of the state of Panama. This new state then granted the US the right not

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only to build the canal but also defend it militarily, and the zone around it became US property by treaty.

The same method that King Charles IV chose in Prague in medieval times was also used in Germany in the 1930s. This was at a time when the world was hit by a global financial crisis, and at the same time, Germany was also paying reparations for the World War I. Inflation reached incredible proportions, and on top of that, Germany had the highest unemployment rate in European history. Thus, the state invested in the construction of modern highways [15]. The new transportation routes had a dual impact. On one hand, a large number of people got paid work, but it also accelerated the transport of goods. This was one of the factors that contributed to the development of German industry. In turn improved production of an industry made it possible to pay off the war reparations through its increased economic performance.

Or, for examples from a completely different field: without subsidies, the works of Michelangelo Buonarroti or Leonardo da Vinci would not have been created.

Today, every country in the world uses some form of subsidies, and there are many types of them. These can include tax concessions, customs advantages or disadvantages, directly allocated funds, favoring certain goods, through government procurement, subsidies, price fixing, capital shares, etc.

So when one looks at human history, one will not find any single period where some form of subsidy did not exist. Therefore, the question of "whether to subsidize or not" is entirely pointless. They have always existed and always they will. That is also why the entire Keynesian theory [16] of subsidies distorting the market is merely an academic exercise. And for anyone who knows anything about subsidies and the economy, it is also quite comical. The theory is correct in only one respect, that they do deformation of the market. However, this theory completely disregards how and to what extent the market distorted by them, is beneficial to society and the state.

The above historical examples have one thing in common in terms of subsidies. Their use brought considerable economic benefit to their creator and, in many cases, changed the course of the human history.

The only question, then, is what form of subsidy is used, and for what purpose. However, if they are subsidies that will boost trade in some way, their economic effectiveness can always be expected. The key is to build better transportation links, infrastructure, or faster long-distance communication. It has been proven for millennia that better transportation routes have a positive impact on a trade and, consequently, on the economy.

But the other side of the coin should not be forgotten either. Anyone efficient commerce can boost the economy, but it cannot feed people on its own. Therefore, it is necessary to first have a foundation that can support the people. Not only by providing them with food, but also by ensuring they have work to earn a for living. A country that loses its production base will fall into an economic trap. It becomes dependent on imports, that is on someone else. Meanwhile, its own people are left without work. So to ensure they can make a living and have money to spend, and that the money cycle is not broken, it becomes necessary to create artificial employment. However, such a state then creates no value, yet it still needs money. And where will it get this money, if it is fundamentally tied to some created surplus value? Releasing more currency into circulation does not solve the situation. This invariably leads to high inflation. There is only one way to deal with such a situation. That is to take the surplus value from the others. This is also a path that has been proven throughout history. All human expansions, in any form, and all wars have had, and still have to this day, this objective. Even if the form of economic control used may fundamentally differ in each case from the other.

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