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"The First World War in the History of Globalization"

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Globalization has been the most striking development in world affairs for the last generation, making the world's economies more inter-connected and more inter-dependent than ever before in world history. However, an earlier wave of globalization over a century ago came crashing down in dramatic fashion as a result of the First World War and its ripple effects--the Great Depression, the Second World War, and the Cold War. Not until the 1990s did the world economy truly recover from the impact of the First World War. Indeed, in important ways, the pre-1914 world was more globalized than our world is today. The striking importance of the First World War for the history of globalization raises a number of major questions for historians and social scientists.

First, why didn't globalization act as more of a check to stop the war from breaking out?

By 1913, Norman Angell's hugely successful work, The Great Illusion, popularized the argument that shared economic advantage would make war too costly to pursue. Jean Jaures, leader of the French Socialists, proclaimed in the Chamber of Deputies in 1911, "There is another force for peace in the world today, it is modern capitalism in the organized state." But fear of dependence on global markets also spawned arguments in favor of war. As General F. Bernhardi claimed in 1912, Germany needed to prepare for a war because:

> The livelihood of our working classes directly depends on the maintenance and expansion of our export trade. It is a question of life and death for us to keep open our overseas commerce.

Most importantly, the least economically integrated states—Austria-Hungary, the Balkan states, and Russia—provided the spark of conflict and all of these states feared global ties at least as much as they gained from them.[1]

Second, why and how did the Great War break the dynamic of globalization in such a profound fashion?

By undermining the financial stability, free trade policies, investment patterns, and migration systems upon which international economic ties had depended, the War undid much of the foundations of the late nineteenth century globalization. As John Maynard Keynes wrote in 1919, "Very few of us realize with conviction the intensely unusual, unstable, complicated, unreliable temporary nature of the economic organization by which Western Europe has lived for the last half century."[22]

It is sometimes still argued that the abandonment of the gold standard by all of the major powers during the War led to the ensuing economic instability of the interwar period. The key to pre-World War One

[1] Erik Gartzke and Yonatan Lupu, "Trading on Preconceptions: Why World War I Was Not a Failure of Economic Interdependence," International Security. One of the best summaries of the political calculations that led to the wars' outbreak is still Jack S. Levy, "Preferences, Constraints, and Choices in July 1914," International Security, 15:3 (Winter, 1990-91), 151-86.

[22]J.M. Keynes, The Economic Consequences of the Peace (London, 1920), 1.

monetary stability, however, was not the gold standard, but cooperation among central banks. The gold standard was only a mechanism by which to value currency, one which had a built-in bias towards deflation. What the War did was to make it almost impossible for central banks to cooperate with each other as they had before the War. Each bank had to help finance its own government's enormous appetite for war financing. In order to secure funds for the governments, they had to curtail international lending, trade, and investment in order to ensure that the home economy could produce for the military in as unimpeded a fashion as possible. After the War, managing the massive weight of government bonds, war debts, and reparations sapped each bank's strength. Cooperation with other central banks was a luxury that was now jettisoned. As Findlay and O'Rourke aptly conclude, "The interwar period is a striking confirmation of the now cliché-ed observation that history matters.'"[2]

[2] Findlay and O'Rourke, 471.

Third, Why Did Globalization Not Come Back More Strongly in the 1920s?

The War, as terrible as its impact was, was followed by a period of recovery. Most countries gained back their levels of prosperity either in the 1920s or, for those whose economies stagnated in the 1920s, in the 1930s.[3] Furthermore, the War stimulated a large number of innovations or speeded up the introduction of innovations--radio, airplanes, the burning of oil instead of coal, synthetics, cars and trucks, electricity.

Why did globalization not return? The interwar international economic system failed because there was no longer inter-bank cooperation, the monetary system's center had shifted to the U.S. while the trading system still centered on Great Britain, and domestic considerations could no longer tolerate the politics of deflation that had kept the pre-war monetary system functioning. [4] Two major reasons, in particular, help answer why globalization did not come back: trade and finances.

[3] Joan roses and Nikolaus Wolf, "Aggregate Growth, 1913-1950," Cambridge Economic History, eds. Broadberry and O'Rourke, 186-207.
[4] Barry Eichengreen, Globalizing Capital: A History of the International Monetary System (Princeton, 2008), 88-89.

A global trend towards autarchy marked one of the First World War's greatest legacies. Tariffs, quotas, and the decline of connections among nations prevented international trade from being the engine of economic growth that it had been before 1914. "Trade could have been on average about 50 percent higher if 1913 tariff levels had prevailed in the 1930s."[5] Immediately following the Second World War, the percentage of trade in the international economy was probably no higher than a century earlier. Not until the 1990s did the growth in world trade again grow markedly faster than GDP.[6] While international finance in the current era of globalization has exceeded the level of a century ago, worldwide, trade has only belatedly expanded. As Findlay and O'Rourke argue, "the majority of the world's population in 2000 lived in economies that had higher manufacturing tariffs than on the eve of the Great War."[7] In other words, the long run effect of the First World War was to set the world economy back, at least temporarily, a century. During the 1920s,

[5] Estevadeoral, Frantz, and Taylor, 391.
[6] Teresa Gramm, "Development of Trade Institutions and the Advent of Globalization Since the End of World War II," Routledge Handbook of Major Events in Economic History, eds. Parker and Whaples, 351.
[7] Findlay and O'Rourke, 500.

the battles over reparations and war debts poisoned relations among the central banks, blocked tariff reform, and wrecked almost every international economic summit. As Belgian business executive and politician Georges Theunis put it at the World Economic Conference at Geneva in 1927 over which he presided, "Except in the actual fields of conflict, the dislocation caused by the War was immensely more serious than the actual destruction."[8]

Fourth, why was the First World War's impact on the trend of globalization so long lasting?

Migration and agriculture are two areas where the effects of the War can be seen even today. After World War One, governments never allowed migration to flow as freely as before. One of my grandfathers went back and forth across the Atlantic several times, without a passport, before 1914. The 1924 Quotas Act in the U.S. drastically cut migration from eastern and southern Europe where millions of under-employed peasants

[8] M. Theunis, World Economic Conference. Final Report (League of Nations, 1927), 13.

and workers still wanted to emigrate. Overseas migration to the United States fell from 1.1 million annually in both 1913 and 1914 to an average of only 232,000 between 1922 and 1929 and to only 30,000 in the 1930s.[9] Migration has never been as important in the world again as it was before 1914. The level of migration today is only about a third of what it was before World War One.

The War vastly expanded agricultural production as trade routes were cut and armies provoked a huge demand for food. At the encouragement of the United States government, my other grandfather left his carpentry business in Michigan in 1917 to grow wheat in Nebraska. "Exports of wheat and wheat flour from the United States rose more than threefold in value between 1913 and 1918."[10]

After the War, overproduction plagued every agricultural region in the world as soldiers returned to the fields and trade routes re-opened.

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[9] Timothy J. Hatton and Jeffrey G. Williamson, Global Migration and the World Economy: Two Centuries of Policy and Performance (Cambridge, Mass., 2005), 183.
[10] Ronald Findlay and Kevin O'Rourke, Power and Plenty: Trade, War, and the World Economy in the Second Millennium (Princeton, 2007), 436.

"In the twenty-five years between 1913 and 1938 European wheat imports fell from an average of 555 million bushels to 350 bushels." Production in Western Europe, the biggest import area in the world in 1913, had exploded during the War because of the difficulty of getting grains from overseas. After the War, production did not diminish, which meant that farmers in the United States and other grain exporting areas saw their incomes decline.

The War, indeed, marked a fundamental shift in European agriculture that has still not been erased. Europe never returned to the free-flowing agricultural markets of the pre-1914 world. Instead, agricultural tariffs increased, direct subsidies to farmers were introduced, quotas on imports were imposed, and stockpiling of agricultural products grew. Only in the 1960s did Europe import, with a much larger population, as much wheat as it did in 1913.[11] Agricultural subsidies worldwide are a continuing relic of the era of world wars. Subsidies to farmers are still the single largest expenditure of the European Union, and they can be

[11] William Woodruff, Impact of Western Man: A Study of Europe's Role in the World Economy 1750-1980 (London, 1982), 269.

traced directly back to the subsidies that national governments began in the interwar era.[12] Fear of rationing, blockade, and starvation left an almost indelible memory. Like migration, agriculture is a sector where the pre-1914 era was more globalized than ours: the proportion of grain in international trade has never been as high again as it was before 1914.

Two areas where the War and its impact had a similar long-lasting effect on the world economy were, however, changed by the current wave of globalization since 1990: investment and imperialism. The First World War and its aftermath shrank foreign investment: whereas before the War, foreign assets had represented nearly 20 percent of world GDP, this had fallen to only 8 percent by 1930, and only 5 percent by 1945.[13] Only in the early 2000s did international investment reach and briefly exceed the level reached before the First World War.

[12] Stefan Houpt, Pedro Lains, and Lennart Schon, "Sectoral Developments, 1945-2000," Cambridge Economic History, eds. Broadberry and O'Rourke, 334-42.

[13] Guillaume Daudin, Matthias Morys, and Kevin O'Rourke, "Globalization, 1870-1914," The Cambridge Economic History of Modern Europe, Vol. 2: 1870 to the Present , eds. Stephen Broadberry and Kevin O'Rourke (Cambridge, 2010), 10.

The major reason for the decline after the First World War was the shift of the center of finance from Britain to the United States. The United States could never play the role that Britain had performed in the world economy of the pre-1914 era or even the interwar period, simply because the U.S. was never as involved in the world economy as Britain had been. In terms of trade, as opposed to capital, the U.S. became less internationalized over much of the twentieth century. Not until around 1980 did U.S. trade as a share of GDP finally pass the highpoint reached in 1913.[14]

Yet for all of its economic dominance, the U.S. only very slowly became a true financial center, especially for international investment flows, even after the Second World War. In New York, the biggest financial center of the world, foreign issues amounted to only $4.2 billion between 1955 and 1962 as opposed to $126.5 billion in national U.S. issues. In London, still the second largest financial center and more internationally-oriented than New York, foreign loans between 1950 and

[14] Paul Krugman, "Growing World Trade: Causes and Consequences," Brookings Papers on Economic Activity 1995, 327-377.

1958 averaged 61 million pounds annually; before the First World War, they had averaged almost 200 million annually.[15]

The First World War also profoundly re-shaped the economic relationship between Europe and non-European countries that were European colonies in Africa and Asia. Not the late nineteenth century, but the post-World War One era was actually the real age of imperialism, in an economic sense. France, Britain, Belgium, and the Netherlands turned more towards bilateral trade with their own colonies and away from multilateral trade. The effects were long lasting. As late as 1992, 95 percent of the exports of Africa and South Asia went to countries outside these regions, overwhelmingly to Europe. This, too, has been finally changed in the last twenty-five years during the current wave of globalization.

[15] Cassis, 211.

And, finally, what lessons for the future of globalization might there be from the intersection of the First World War and the history of globalization?

One of the most powerful lessons of the twentieth century is the inter-penetration of international political and economic leadership. The pre-World War era is still the blueprint for our own international system today. Leaders like Franklin Roosevelt and John Maynard Keynes in the 1940s wanted to re-create the trust that had characterized the more prosperous pre-1914 era, but this time have it be supported and regulated by international agreements.[16] We still are living in the wake of FDR and Keynes' efforts. The International Monetary Fund, the WTO which grew out of the GATT, the World Bank, the UN—all of these are the products of the greatest generation's reading of the pre-1914 world. Together, these institutions, with all of their flaws, form the framework of the global economy even today. One could argue that is long past

[16] Eichengreen, Globalizing Capital, 96-7.

time to give the twenty-first century an international framework worthy of our own time.

The greatest lesson of the Great War and the history of globalization may be that globalization can produce its own downfall. As horrible as the War and its aftermath was, much of western Europe and North America during the years of peace in the mid-twentieth century saw progress in lessening inequality and increasing social welfare, as Thomas Piketty has recently reminded us. One of the misfortunes of the twentieth century was that globalization was so often linked to increasing inequality in those countries that did not take steps to invest in their workforce and share the benefits of international economic ties. The dangers of this should be clear from the story of the First World War and its aftermath. Lashing out against globalization can lead to massive conflicts; sensible moderating of the negative effects of globalization such as inequality can keep globalization going and have its effects be more positive than negative.

The other great lesson of the Great War is the dangers inherent in an unmanaged multi-polar world. Britain and Germany, with their allies, did not manage to move from a system in which Britain had been the primary economic and political power to one where power was shared. The U.S. avoided responsibility for a multi-power world in the interwar years with disastrous consequences.

Yet there is cause for optimism as well. The spread of democracy and the growth of trade among states dramatically lessen the likelihood of conflict. This effect is even stronger if states are enmeshed in international governmental organizations.[17] The Great War occurred in a world with few international institutions, weakly established democracies cheek by jowl with autocracies, and often reckless militaries, ruled by a rigid financial orthodoxy. We have learned a great

[17] John R. Oneal, Bruce Russett, and Michael L. Berbaum, "Causes of Peace: Democracy, Interdependence, and International Organizations, 1885-1992," International Studies Quarterly 47:3 (September, 2003), 371-393. Gartzke argues that capitalism has as an important effect as democracy in lessening the chances for conflict between states, but his evidence appears to rest heavily on the post-World War II era when democracy, capitalism, and intergovernmental organizations all simultaneously became stronger. He does not discuss the outbreak of the First World War.

deal since then. Humans have not changed, but we have the tools to protect ourselves, if we muster the will and the wisdom to use them.