Abstract • World War I is the most important single event in the history of globalization. The war ended the first significant era of increasing economic ties among nations and thereby shaped the economic history of the twentieth century. The war set off both a search for ways to re-create the prewar liberal world economy and attempts to create statist alternatives to it. The collapse of interbank cooperation and expansion of controls on trade, migration, and agriculture meant that economic globalization re-emerged only very slowly over the rest of the twentieth century. Indeed, the long-term effects of World War I lasted until the 1990s. The lesson of this story for the twenty-first century is to check the dangers inherent in a multipolar world, where globalization produces both economic growth and social tensions.

Keywords • agriculture, economic history, globalization, imperialism, interbank cooperation, migration, tariffs, World War I

World War I was an epochal event, given the sheer loss of life, the revolutionary changes that it set off in international relations, politics, and culture, and its legacy in communism, fascism, and World War II. To fully understand the historical importance of World War I, however, one must see the war in light of the history of globalization. Globalization has been the most striking development of the late twentieth century, making the world’s economies more interdependent than ever before in world history. Yet an earlier wave of globalization began over 150 years ago and reached its height in the early twentieth century. As the British jurist Lord Bryce wrote in 1903, “It is hardly too much to say that for economic purposes all mankind is fast becoming one people.” This first global era came crashing down in dramatic fashion as a result of World War I and its ripple effects—the Great Depression, World War II, and the Cold War. Only today, in the twenty-first century, can we see World War I’s effects disappearing and truly appreciate the war’s importance in shaping contemporary history.

Looking at World War I in light of the history of globalization helps us to rethink both the origins and the impact of the war. The voluminous historiography on the origins of the war focuses on rivalries among the great powers and, secondarily, social conflicts within the great powers that their ruling elites hoped to escape through aggressive foreign policies in order
to win them renewed support. By contrast, the most influential argument that international economic competition helped cause the war, Lenin’s, has been largely discredited.\(^4\) Lenin argued that the war was the culmination of ongoing imperialist conflicts among the great powers. Yet only ten years before the war broke out, the major imperial rivalries were between Britain and France and Britain and Russia, not with Germany. Germany came late to the imperial game. By 1914, it had settled all of its disputes peacefully.\(^5\) Lenin believed that the global economy was bound up and supported by imperialism, that is, European control of non-European areas. Yet Lenin’s own statistics showed that most European investment and trade had little to do with imperialism—Britain’s in Argentina and the United States, for example, that of France in Russia, and Germany’s almost everywhere.\(^6\) Today, few historians look for economic causes to the war. What this means, however, is that the greatest military conflict in history before World War II is studied with little attention to the most important economic change in world history going on simultaneously—globalization.

If globalization was so strong, why did globalization not act as more of a check to stop the war from breaking out? Or did globalization at least play an indirect role in causing the war? And why, if globalization and World War I had at best an indirect and complicated relationship, was the impact of World War I on the history of globalization so long lasting? This article asserts that globalization had a paradoxical but profound relationship with the outbreak of World War I. Globalization acted as a force for peace by encouraging international cooperation and demonstrating that economic integration promised far greater gains than conquest. It held out the promise of a much different world than the endless diplomatic disputes and empire building of the past.\(^7\) Indeed, the increasing integration of the European economies made many observers believe that war was unlikely, if not impossible. Modern industrial societies had become so interdependent that any war would have to be short, because no combatant great power could maintain its way of life during wartime.

At the same time, globalization also made World War I more likely, although certainly not inevitable. This was for two reasons. Although globalization peacefully integrated different countries’ economies, it also dramatically altered the position of economic interest groups. Traditional landowners, small farmers, retailers, and artisans struggled to adapt to new competition, change their methods, or increase the scale of their enterprises. Their plight transformed them into the bedrock of support for populist, nationalist, and imperialist programs. Prewar globalization aggravated social discontent by rigidly imposing deflation as the price of maintaining the gold standard. Without social welfare, recessions exacted a grievous toll. These disruptive effects of globalization and its strengthening of international ties also frightened elite interest groups in Germany, Austria-Hungary, and Russia. These groups feared that migration, trade, and foreign investment weakened the autarchic militarism on which their power depended. Thus,
globalization could only exercise its full effect of encouraging peaceful integration if militarist elites lost power, accepted new ideas, or were hemmed in by forces that supported globalization and rejected militarism.\(^8\)

Although World War I began as a struggle among imperialist great powers, it became the first battle between two visions whose struggle defined much of the twentieth century: one where increasing economic integration could make irrelevant the empires, conquests, and militarism of the past, and one where autocratic states harnessed the technology and bureaucracy of the Industrial Revolution to create more powerful autarchic regimes. Although contemporaries took years to realize it, the war ended the informal globalization of the late nineteenth century. Trying to resurrect the prewar economy in the 1920s only caused more upheaval. Dictatorship, autarchy, and import substitution regimes arose in the wake of the war as alternatives to economic integration and liberal, capitalist models. A new, more formalized world economy, where international institutions made globalization and the growth of liberal capitalism possible, emerged only fitfully and painfully after 1945 following decades of economic turmoil and renewed war. Because the war set off such a fundamental clash over competing visions, its effects were uniquely long lasting.

Much of the historical literature on the origins of World War I portrays Europe before 1914 as moving almost inevitably toward conflict. As Norman Stone writes, “After 1911, the war had already broken out in people’s minds.”\(^9\) In reality, strong forces pushed Europe simultaneously in different directions: some toward conflict and others toward cooperation. There were diplomatic crises over Morocco and the Balkans, increasing armaments expenditures, and frequent bursts of nationalist feeling. Yet the European great powers settled all of their prewar crises peacefully, however much one or the other side might have regretted the outcome. The growth of armaments right before the war, although unusual in embracing almost all the great powers, was not unusual by comparison with previous or later arms races.\(^10\) Nationalism increased, but its targets changed, and philia rivaled phobia. The lineup in World War I emerged slowly and fitfully. Britain and France nearly went to war in the Fashoda Incident over rival claims to the Sudan in 1898. Russia and Germany had been allies until 1890 in the so-called Three Emperors’ League.\(^11\) As late as 1906, Charles A’Court Reppington, the London Times military correspondent, argued that Russia threatened Britain more than Germany.\(^12\) Leagues for Franco-German friendship continued to promote economic ties until hostilities broke out.\(^13\) Tsar Nicolas and King George V received warm welcomes from crowds in Berlin for a royal wedding in 1913.\(^14\) A Danish observer, Georges Brandes, who traveled back and forth between France and Germany during 1913, wrote what many contemporaries felt: “Just as nine-tenths of the population of France wishes to maintain peace and is willing to prove this by its actions . . . the majority of Germany’s thrifty population no doubt feel that there is nothing to be gained by a war with the western neighbor.”\(^15\)
of France’s most prominent political observers, Gabriel Hanotaux, wrote in 1913, “An Anglo-German conflict, which would be an embargo put on the life of humanity, appears, on the least reflection, as the least rational thing in the world, and, by consequence, the least probable.”

Sanguinity about the future came in part from the increasing and unprecedented economic ties across borders, what we would call today globalization. J. G. Bartholomew, editor of the *Atlas of the World’s Commerce*, wrote in 1907 that “[a]t no period in the world’s history has there been commercial expansion of such stupendous growth as at the beginning of this twentieth century. Every year new lands are being exploited and new regions opened to commerce. Everywhere the old is giving place to the new.” Indeed, in terms of the percentage of agricultural products in world trade, the level of migration, the proportion of foreign-owned utilities, and the flow of capital as a share of national income, the pre–World War I era was more globalized than our world is today.

This global network of economic ties did not correspond to the embryonic lineup of World War I. “In the years before the First World War Germany was Russia’s most active trade partner by far, taking about one-third of all Russia’s exports and supplying one half of her imports.” “Between 1904 and 1914, Britain became Germany’s best customer and Germany was Britain’s second-best market.” Belgian, French, German, and Luxembourghish industrialists wove networks of investment, cartel agreements, and exchanges of coal and iron ore across Western Europe. Winston Churchill, not known for his starry-eyed idealism in his later career, argued in 1908 that “in spite of the folly of armaments and tariffs, of the unwisdom of so many of our political and journalistic hot-heads, the unity and the solidarity of the civilized world grows stronger from year to year, and almost from month to month.” By 1913, Norman Angell’s hugely influential work, *The Great Illusion*, popularized the argument that shared economic advantage would make war unnecessary and harmful. Jean Jaurès, leader of the French Socialists, echoed Angell’s claim 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.”

World War I is often cited as the emblematic case of the failure of economic interdependence to deter war. One can naturally ask why globalization did not act as more of a check to stop the war from breaking out. David Rowe argues that globalization actually caused World War I because it weakened the great powers’ ability to mobilize for war—through rising wages and greater dependence on foreign markets and capital—and thus undermined their ability to deter opponents. Rowe’s argument rests on the proposition that only stronger deterrents—larger armies, more armaments, greater bellicosity—could have prevented war. This seems doubtful. All leaders knew how interconnected their countries’ economies had become. They still invested heavily in armaments and jumped continuously from one diplomatic crisis to another. German generals knew that they were
outnumbered and faced war on two fronts. They also knew that Russia was rapidly rearming from the debacle of its defeat by Japan. Despite daunting odds, they still argued for war, which they convinced themselves was inevitable. Waiting to fight only lessened the chances for victory. The one clear example where deterrence might have altered the war’s outbreak was Britain’s failure in 1914 to warn Germany, as it had in 1911, that it would not allow an attack on France. Globalization did not constrain British diplomats from issuing a firm deterrent; the vacillation of Lord Grey, the British Foreign Secretary, and pressure on the cabinet from the Liberal Party’s antiwar wing did.

Rather than demonstrating that globalization causes war, or that economic interdependence fails to act as a powerful deterrent to war, August 1914 demonstrated the limits of economic interdependence on changing the mind-set of political and military leaders. For centuries, leaders had assumed that military and economic power went hand in hand. Military power gave a country the chance to conquer territory and thus increase its population and resources, or the opportunity to destroy another country’s sea trade. During the “long peace” of the nineteenth century, when the Industrial Revolution swept the continent, this equation of conquest and wealth looked increasingly questionable. The massive Russian Empire lost the Crimean War because of its poverty and backwardness. Although Europeans delighted in using their newfound technological power to dispossess Africans and Asians using tiny but more advanced militaries, increasingly in Europe military power seemed irrelevant to economic success. Countries that invested in their people through education, improved their transportation, and expanded industry and trade grew wealthier, regardless of whether or not they controlled vast amounts of land or population.

Imperialism continued to beguile Europeans with the false promise of prosperity from conquest because of Britain’s stellar success in both realms. By 1850, Britain displaced the Netherlands as the wealthiest country in the world, per capita. At the same time, Britain possessed the largest empire, which expanded by 1900 to encompass nearly one-fifth of the world’s population and one-quarter of the world’s land surface. This congruence—wealth and empire—dazzled Britons and non-Britons alike. Tragically, imperialism almost always proved a costly and losing proposition, and imperialist arguments ignored how the international economy had actually grown. The wealthiest parts of the British Empire were self-governing dominions—the Australian states, Canada, and New Zealand. No other European power ever developed similar autonomous countries as part of its empire. The one part of the British Empire that contributed substantially to Britain’s economic success was India, which bought British goods, paid handsome dividends on its investments, and provided troops and taxes that helped Britain conquer other countries. India, however, only proved profitable after a century of enormous British expenditures. After defeating the Indian Mutiny in 1857, Britain’s cost-benefit balance on India was barely positive. Yet duplicating
Britain’s gains from the dominions and India bewitched Europeans of other nations, as well as Japan.  

The two most successful industrial powers of the pre-1914 era were the United States and Germany, the least imperialist of the great powers. In 1913, trade with its colonies represented less than one percent of Germany’s foreign trade; US trade with possessions conquered from Spain counted for even less. Imperialist propaganda in Germany nonetheless outrageously exaggerated how much British and French colonialism hurt German industry and commerce. In the years before World War I, despite tariffs, German goods rapidly penetrated French colonies. German goods might have penetrated still faster with lower tariffs or if the colonies had been German instead of French, but there was never any danger of Germany being shut out of world markets or the need for a war to force open markets.

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The imperialist fantasy and baleful equation of political with economic power impinged powerfully on the two great powers most responsible for starting World War I, Germany and Russia. Justificatory rhetoric for belligerence features so prominently in diplomatic history that scholars rarely analyze the rationality—or irrationality—that behind leaders’ positions. Yet the economic goals offered on the eve of World War I are strikingly different from the language of earlier eras and strikingly at odds with how the world economy had developed. Fearful of globalization, German leaders argued that their country’s increasing dependence on trade and industry required a navy like Britain’s. As General Friedrich von Bernhardi claimed in 1912, “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. . . . We cannot reject the possibility that a State, under the necessity of providing remunerative work for its population, may be driven into war.” Former chancellor Bernhard von Bulow in 1912 argued that the expansion of German trade meant that “[w]e are now vulnerable at sea.” Without a large navy, “[w]e should have been placed in the position of being unable to employ and support a considerable number of our millions of inhabitants at home. The result would have been an economic crisis which might easily attain the proportions of a national catastrophe.” In January 1914, Chancellor Theobold von Bethmann Hollweg told the French ambassador, Jules Cambon:
For forty years, France has pursued a grandiose policy. It has secured an immense empire for itself in the world. It is everywhere. During this time, an inactive Germany did not follow this example and today it needs its place in the sun. . . . Every day Germany sees its population growing by leaps and bounds; its navy, its trade and industry are making unparalleled developments. . . . It is forced to expand somehow or other; it has not yet found that “place in the sun” which is its due.34

None of this economic logic could stand up to the slightest encounter with reality. During decades without a navy, Germany had grown as an economic power by trading with the entire world, borrowing capital, and importing large amounts of food and raw materials. In 1913, Germany was the second-largest importer of food in the world, possessed the two largest shipping companies in the world, HAPAG and Norddeutscher Lloyd, and ran a trade surplus of twenty million pounds sterling with Britain, while Australia and India ran a similar trade surplus from British imperial imports to Germany.35 German industry and agriculture recruited migrant labor from a wider area each year.36 Other powers did not inhibit German economic growth. Colonies offered nothing that Germany could not obtain at a lower cost, and with less conflict, on the open market. Yet the fear that the new global economy threatened the status quo drove the thinking of Germany’s elite, because they could not conceive of a world in which diplomatic and military strength did not define economic power. They persuaded themselves that globalization required an offensive strategy, in part because rapid economic change appeared to undermine their traditional supporters—Prussian landowners, artisans, and the lower middle class. Meanwhile, the same implacable march of industry that gave Germany a technological and military edge also created an ever-larger working class intent on reversing its subservient position. Germany’s leaders saw foreign policy success, including risking a European war, both as their escape from a confrontation at home created by the inexorable pressures of globalization and as a means to ensure success in international economic competition.37

Meanwhile, Russia, as recent scholarship demonstrates, took a far more active role in instigating World War I than for decades had been commonly believed. Fear of the vicissitudes of the international economy played a major role in its decision for war. Just two days after the Sarajevo murders of Archduke Franz Ferdinand and his wife, Sophie, the Russian foreign minister, Sergei Sazanov, asked the country’s naval minister, I. K. Grigorevich, if the Russian Black Sea fleet was ready for war.38 For over a century, Russia had craved control of the straits linking the Black Sea to the Mediterranean, the site of Constantinople, the Ottoman capital. By 1914, this goal had been redefined as a means to protect Russia’s economy. Humiliated by defeat in the Russo-Japanese War in 1905, the tsarist government had followed the plan of Peter Stolypin, chairman of the Council of Ministers, who sought to modernize Russia through aggressive Belgian and French investment
in industry, paid for by increased grain exports. Stolypin argued that this program required peaceful integration into the world economy; after his assassination in 1911, his successors reversed his logic: Russia should use force to protect its economic expansion. The route from the Black Sea to the Mediterranean provided the only ice-free access for Russian grains, mostly wheat, to world markets, and Russia was second only to the United States as a grain exporter. By 1914, almost half of Russia’s exports went through the Bosphorus and Dardanelles Straits, and almost 90 percent of her wheat exports—the single most valuable commodity—did. Russian vulnerability became clear in November 1912 when Bulgaria, already at the time not an ally of Russia, nearly reached Constantinople during the First Balkan War. Then in November 1913, German army officers took over command of the city’s defenses on behalf of the Ottoman Turks. As Sean McMeekin writes, “Already on high alert lest the ungrateful Bulgarians usurp Turkish authority in Constantinople, Russia was now faced with the frightening prospect that her most powerful enemy would soon possess a chokehold at the Straits over her export economy, on which depended everything else.” Yet the cooperation of other great powers had been essential to Russian access through the straits for over a century. Launching a war threatened Russia far more than the unlikely closure of the straits. As in Germany, militarists claimed that the new global economy rendered their country economically vulnerable and justified recourse to an ancient remedy: war. While Britain and France were able to manage the powerful forces in the world economy, Germany and Russia believed that dependence on markets, immigrants, or capital made them more vulnerable.

It is critical to realize that in going to war, the Germans and Russians believed that military victory would strengthen their positions as great powers within the free-flowing international economy, not that they would bring down this economy or replace it. They hoped to use force to improve their position and at the same time still reap the gains that had only come from a peaceful world in which countries had stopped using force to make economic gains. As German historian Egmont Zechlin has described the thinking of the German elite in 1914:

In the narrower sense the war as an instrument of diplomacy seemed no more than an interlude rather than an incisively new element. When it was over, traditional Great Power politics would be resumed, under circumstances more favorable to German ambitions. The Germans certainly expected that during and after the war the traditional European community of nations, governed by international law, would survive and continue its unrestrained jockeying for power. Such, at least, were the views held by the leading government officials, inured to orderly and legalistic thinking. Even in the bleakest days of the war, centrist and liberal German leaders hoped that, if necessary through Woodrow Wilson’s proposed association of
nations, their country could win back most-favored-nation status and rejoin a liberal trading economy with the Allies once hostilities ended.\footnote{42}

Unfortunately, the limited war that Germans and Russians sought in order to improve their diplomatic and economic position quickly proved impossible in the new world of 1914. Because of newspapers, rising literacy, and political movements, all states, even autocratic Russia and authoritarian Germany, had to appeal for support from their entire populations to underpin the war effort. Once committed to war, they could not fight a limited conflict with negotiated gains. As Reppington argued already in 1906, “Modern war is no longer the exclusive affair of the Crown and Cabinet. It is an affair of the people.”\footnote{43} Furthermore, just because the globalized economy had made states interdependent, each side yielded to the temptation to seek advantage over their enemies by cutting off trade, seizing property, and blocking capital movements. During the wars from the seventeenth to the nineteenth centuries, European powers had narrowed warfare to combatants and protected trade and financing by neutrals as much as possible. Napoleon’s Continental Blockade achieved notoriety because of its exceptionalism. World War I created total war by forcing states to mobilize their industrialized economies for an all-out struggle and to encroach on the rights of neutrals.\footnote{44}

As a total war, World War I created a conflict between economic world-views that has shaped history down to the present. Following the war, re-creating the globalized pre-1914 economy on a new basis competed with an alternative statist view of the world economy as a battlefield. Those committed to a more liberal world economy realized that the pre-1914 era could not be resurrected. They disputed and despaired over how much of it to bring back and how much to alter it. In the rival statist vision, states controlled their economies in order to compete more effectively with other states or to seal themselves off from the world economy as much as possible.\footnote{45}

The statist vision emerged out of the actions taken by all combatants to fight the war.\footnote{46} To prevent massive sell-offs of securities and forestall public panic, governments closed stock exchanges, some, as it turned out, for the duration of the war. Governments intervened in financial markets to ensure that bills of exchange were paid. Convertibility of currency into gold—indeed, in some cases, all exchange of domestic into foreign currency—was suspended or tightly regulated.\footnote{47} Enemy property was “sequestered” and sold to others.\footnote{48} Germany lost investments in Britain, France, and the United States amounting to about one-seventh of all foreign investment in the world, while Germany seized Allied investments within its borders.\footnote{49} During wartime, states had always been free to seize the property owned by citizens of enemy states. In practice, they had almost never carried this out. Many treaties had even provided for restitution of property seized in wartime, should it occur.\footnote{50} When governments seized property during World War I, almost none was returned or foreign investors compensated. Neutral countries too unraveled the threads of globalization: Sweden, supplier for
Germany’s voracious demand for iron ore, banned foreign purchase of ore fields in 1916.\textsuperscript{51}

The conflict between statist and liberal worldviews emerged during the war itself. The Allied victory demonstrated that a more interdependent world economy could triumph over autarchic states. Although Britain, France, Italy, and the United States exerted vastly more control over their domestic economies than they had done before, they also demonstrated the virtues of integration; they pooled their shipping, allocated resources jointly, and planned industrial production together. In many ways, they groped for how to use the strengths of the prewar economy while directing it through government action.\textsuperscript{52} It was no coincidence that the economic views of Western integration’s great mid-twentieth-century proponents—John Maynard Keynes, Jean Monnet, and Franklin Roosevelt—took shape during World War I.\textsuperscript{53} The Germans, meanwhile, could not even coordinate economic policy with their Austro-Hungarian allies; forced labor from Belgium and Poland and plundering of the Ukraine produced little and cost much.\textsuperscript{54}

Because it ignored the logic of prewar globalization, resurrecting the gold standard during the 1920s in order to revive the prewar liberal economy proved futile. Gold had done little to create economic prosperity before 1914; maintaining the gold standard had exacted a terrible price on those suffering deflation. The key to the pre-1914 world’s financial stability had been cooperation among central banks.\textsuperscript{55} As John Maynard Keynes wrote in 1920, “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.”\textsuperscript{56} Because of the battles over German reparations and Allied war debts to the United States, no agreement or international cooperation ever emerged in the interwar period to replace the informal but powerful rules of the pre–World War I period. As Belgian business executive and politician Georges Theunis put it at the World Economic Conference in 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.”\textsuperscript{57}

The war made it almost impossible for central banks to cooperate with each other as they had before the war. During the war, each central bank had had to help finance its own government’s enormous appetite for war budgeting. In order to secure funds, they curtailed financing for international lending, trade, and investment in order to ensure that the home economy could produce as much as possible for the military. Focused on their domestic economy, banking systems could no longer withstand the dual whiplash of deflation and increased interest rates by tapping funds elsewhere, as they had done before 1914.\textsuperscript{58} At the same time, workers and the middle class had gained more political power during the war. They no longer tolerated the politics of deflation that had kept the prewar monetary system functioning.\textsuperscript{59} Burdened by debt and having lost markets to the United States, Japan, and its own dominions, Britain ceased acting as the world’s financial arbiter.\textsuperscript{60}
The French hoped vainly for an inter-Allied economic union, which the British rejected in order to maintain their empire and independence for the City of London; the United States clung to its traditional high tariffs and rejected responsibility for international financial stability. The eventual rejection of the gold standard by all the major powers in the 1930s signified the final collapse of attempts to re-create the pre-1914 world.

Not until 1929 did the world economy recover to the level of 1913, only to crash again in the Great Depression. Despite economic growth in Germany, Japan, and the Soviet Union during the 1930s, the world economy as a whole by 1938 was only marginally larger than it had been in 1913. The war and its impact reversed the logic of economic globalization, whereby international trade and investments stimulated domestic growth—before World War I, foreign assets had represented nearly 20 percent of world gross domestic product (GDP); by 1930, this had fallen to only 8 percent; by 1945 it was only 5 percent. As late as 1960, foreign assets represented only 6 percent of world GDP.

In place of informal monetary cooperation and free trade, World War I fostered a statist model of economic policy. The first stage in the development of this view was an explanation of the war itself as vindicating prewar arguments for colonies, high tariffs, and autarchy. Beginning with Allied propaganda during the war, through Lenin, and extending through at least two generations of Marxists and liberals, the war was interpreted as a battle over imperialist spoils. This reversed Angell’s argument: rather than economic interdependence leading to peace, economic competition led to war. That World War I had economic causes became an article of faith. Echoing Bethmann Hollweg and Lenin, even as sober an observer as Arthur Bowley, professor of statistics at the University of London, could write in 1930: “The pressure of increasing European population on the means of living was the chief economic cause of the War, resulting as it did in a search for markets, for colonies, and for external countries for investment and production.” As a result, predicted British politician Clive Morrison-Bell in 1930, “Modern wars will be commercial wars, and international trade and markets will be the weapons.”

The most dramatic statist economic models arose along with dictatorial regimes. German government control of the economy in World War I inspired Soviet planners, who launched Stalin’s collectivization and forced industrialization drive. Fascist Italy, warlord Japan, postrevolutionary Mexico, Atatürk’s Turkey, and a range of authoritarian states adopted economic controls to shield themselves from the world economy and protect domestic industries.

To varying degrees, democratic states as well in the interwar period turned away from the liberal economy of the pre-1914 era. Statist policies built on the huge residue of wartime controls that stifled international trade, restrictions that grew as countries tried to protect their industries after the war. According to one team of economic historians, “Trade could have
been on average about 50 percent higher if 1913 tariff levels had prevailed in the 1930s.\textsuperscript{69} Whereas international exports typically fuel economic growth, the interwar period is the classic example of when they failed to do so.\textsuperscript{70} World merchandise exports as a percentage of GDP show that the level of trade immediately after World War II was probably no higher than a century earlier. In other words, the long-term effect of World War I was to set the world economy back a century.\textsuperscript{71}

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<td>2.1</td>
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<td>1973–1994</td>
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Table 2  Growth of Real GDP and Export Volume, 1870–1994

Statist policies made the post–World War I era the true “age of imperialism.” Faced with new competition from the United States, Canada, and Japan after the war, and desperate to support their own industries, France, Britain, Belgium, the Netherlands, and Portugal expanded trade with their colonies and directed their colonies’ trade more toward the mother country. This redirection left profound effects. As late as 1992, 95 percent of the exports of Africa and South Asia went to countries outside these regions, overwhelmingly to Europe.\textsuperscript{72} The impact of World War I still lingers. Not until the 1990s did the growth in world trade again grow markedly faster than GDP.\textsuperscript{73} Even with the immense globalization wave of the last twenty-five years, the flow of trade is much less than it potentially could be.\textsuperscript{74} A host of licenses, quotas, subsidies, and regulations, many dating back to the era of World War I, still inhibit trade. Many of these do little to promote social welfare and a great deal to encourage corruption, interest group politics, and enriched bureaucracies. As Findlay and O’Rourke argue, “[T]he majority of the world’s population in 2000 lived in economies that had higher manufacturing tariffs than on the eve of the Great War.”\textsuperscript{75}

The statist model can also be seen in other areas, including foreign investment, migration, and agriculture. The Allies’ sequestering of foreign properties in the war provided a model for the Soviets—and later for Mexico, Turkey, and China—who seized properties of foreign companies from the 1920s on. Indeed, Soviet Russia seized investments amounting to one-quarter of all French international investments. While many of the initial investments had exploited the host countries, the seizure without compensation curtailed foreign investment all over the world for decades.\textsuperscript{76} Before 1914, labor migration acted as a powerful, relatively unregulated force for globalization.\textsuperscript{77} The Bengali revolutionary M. N. Roy traveled from
Madras, India, to Penang in Malaya in 1914 without being stopped by British authorities, “because no passport was needed” while traveling within the British Empire. After World War I, governments never allowed migration to flow as freely as before. Thanks to the 1924 Quotas Act, migration into the United States fell from 1.1 million annually in 1913 to an average of only 232,000 between 1922 and 1929 and to only 30,000 in the 1930s. The French government created a new identity card in 1916 that had to be carried by all new immigrant workers. In 1917, it was imposed on all foreigners. Germany had set a model of controlling immigrant workers before the war with its limits on foreign Polish laborers. During the war, the government extended these controls to all foreign workers and expanded its powers to deport foreign workers. France copied the German model of regulated migration on a large scale in the interwar era. Agreements with Poland, Mussolini’s Italy, and other countries controlled most of the migration to France.

The war, and the statist policies it spawned, marked a fundamental shift in European agriculture that has still not been erased. The international grain trade had helped power nineteenth-century globalization. Britain, the largest trading nation in the world before 1914, depended on imports for 80 percent of its grain. The war cut trade routes, armies provoked a huge demand for food, and the near starvation of Britain and Germany terrified every government. After the war, almost every country protected domestic agriculture through tariffs, quotas, and subsidies, many of which still exist. Only in the 1960s did Europe import, with a much larger population, as much wheat as it had in 1913. 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 traced directly back to the subsidies that national governments began in the interwar era.

While two of the most extreme statist models died in World War II—Japan’s warlord imperialism and Nazism and fascism in the West—Western nations groped to revive the pre–World War I economy on a new basis. Deeply shaken by the chaos of the interwar period, John Maynard Keynes and Franklin Roosevelt hoped to revive pre-1914 liberal prosperity by creating international institutions to oversee the world economy rather than allowing it to run on its own. We are still living in the aftermath of Keynes’s and FDR’s efforts. The International Monetary Fund, the World Trade Organization, which grew out of the General Agreement on Trade and Tariffs, the World Bank, the United Nations—all of these are the products of the World War II generation’s attempt to re-create the dynamic of the pre-1914 world in regulated form. Together, these institutions form the framework of today’s global economy. Within Europe, Jean Monnet, drawing on his experiences with intergovernmental cooperation as far back as World War I, helped integrate Western European economies as they had appeared to be destined to do before 1914.
World War I created a caesura in modern history through the collision of old-fashioned great power politics with the new world economy of globalization. Globalization neither caused World War I nor helped prevent its outbreak. It nonetheless profoundly shaped both the rivalries and social conflicts that led to war. The promise of increasing interdependency offered by globalization lulled many into complacency about the likelihood of hostilities. Globalization’s rising tide also tempted warmongers to believe that they could use force to make economic gains and still reap the benefits of a liberal world economy. At the same time, globalization threatened established interests that could not see how to maintain their power or that of their nations in a competitive world system without using violence.

The peculiar fragility and rigidity of globalization exacerbated tensions among the great powers. The free-flowing international economy rested on unwritten strictures binding central banks together, informal rules that disappeared overnight in 1914. Endless negotiation amid monetary turmoil failed to restore them in the interwar years. Prewar globalization at the same time exacted a cruel price through the bludgeoning deflation of the gold standard and a brutal lack of social welfare. Post-1918, the war-weary refused to pay this price. A liberal world economy could not be restored until institutions replaced informal rules and the battles over social welfare brought about commitments to protect populations, at least in Western Europe and the United States, against the harshest effects of recession. In dictatorial regimes, World War I led to statist policies whose imprint is still seen today.

As Harold James argues, “Globalism fails because humans and the institutions they create cannot adequately handle the psychological and institutional consequences of the interconnected world.” Globalization can produce its own downfall. As horrible as the war was, and as troubled as the decades following it were, much of Western Europe and North America during the mid-twentieth century saw progress in lessening inequality and increasing social welfare. It is sometimes argued that the war, as tragic as it was, at least led to such reforms as the eight-hour workday, women’s suffrage, and expanded social welfare programs. But there is no reason to believe that these reforms happened only because of the cataclysmic shock of total war. Labor regulation, for example, was expanding in the prewar era. The war cut short the development of international agreements to regulate work hours, health and safety, and migration. One of the misfortunes of the twentieth century is that globalization has been linked to increasing inequality in those countries where governments do not take steps to invest in their citizens and share the benefits of international economic ties. The dangers of this should be clear from the story of World War I and its aftermath. Lashing out against globalization can lead to massive conflicts. If leaders successfully mitigate its baleful effects on employment and equality, globalization can continue, and its positive effects can outweigh the negative.
The other important lesson of World War I has to do with the dangers inherent in an unmanaged multipolar world. Britain and Germany, with their allies, proved unable to move to a system where power was shared. Today, 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. Yet the blindingly false worldview with which Germany’s leaders justified war in 1914 should warn us against complacency. Nations can read their interests in a globalizing world in near-suicidal ways. The United States avoided responsibility for a multipower world in the interwar years with disastrous consequences. Its burden now is to persuade China to avoid imperial Germany’s fate. World War I 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 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.

Notes

4. “It is hard to find evidence that this particular war at this particular moment was directly the consequences of economic pressures or immediate economic need.” James Joll, The Origins of the First World War, 2nd ed. (London: Longman, 1992), 169.
10. Between 1909 and 1913, British armaments expenditures went up 11.5 percent, Austro-Hungarian 22.9, German 35.8, French 34.8, and Russian 38.1. Previous
arms buildups of this scale in the 1870s and 1890s had not led to wars. In the 1930s, armament expenditures for most of the great powers tripled. In the first eight years of the Cold War, they went up 100 percent. David Stevenson, *Arms and the Coming of the War: Europe 1900–1914* (Oxford: Oxford University Press, 1996), 1–14.


34. Quoted in Mark Hewitson, “Germany and France before the First World War: A Reassessment of Wilhelmine Foreign Policy,” *English Historical Review* 115, no. 462 (2000): 570. Admiral Alfred von Tirpitz, the imperial Germany naval minister, argued in 1914 that Germany had to attain great power status, preferably through a powerful fleet, in order to continue to be a strong economy: “No matter how great our power on the Continent, without world stature our status as a World Power would be at an end. Commerce and industry, the essential sources of our economic power, would never recover.” Egmont Zechlin, “Cabinet Versus Economic Warfare in Germany,” in *The Origins of the First World War: Great Power Rivalry and German War Aims*, ed. H. W. Koch (London: Taplinger Publishers, 1984), 230.


40. Ibid., 30.


65. For Allied propaganda on Germany’s economic aims in the war, see Maurice Millioud, *The Ruling Caste and Frenzied Trade in Germany* (Boston: Houghton Mifflin, 1916); S. Herzog, *The Future of German Industrial Exports* [The German Plan to Dominate the Trade of the World, Drawn Up by One of Their Leading Engineers] (New York: Doubleday, Page & Co, 1918).


68. Between 1875 and 1913, tariffs on manufactured goods in Continental Europe grew from 9.4 percent to 13.9, and between 1913 and 1931, from 13.9 percent to 25: Bairoch, *Economics and World History*, 40.


85. For most of the twentieth century, the US government’s benchmark price for wheat was that of 1917.


