

“The Dynamics of Globalization in Historical Perspective”

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Comments Welcomed.

Globalization and History

Globalization is one the most talked-about words of the last 15 years. Globalization, I would argue, is best defined as a two part process connecting world areas together. First, it is an economic process by which capital, trade, and communications have connected almost all parts of the world in a new and profound way.¹ Second, it is a social and cultural process. Along with economic ties, increasingly come different ways of life and new ideas—consumerism, individualism, and, in some cases, even pressures for more democratic government.²

If globalization is one of the major forces shaping our world today, then I believe it is important to examine it more closely. Although social and cultural globalization is extremely important, I would like to focus on the first process, economic globalization, including in this the political and institutional factors that make economic globalization possible. One of the major questions facing our world today is “Is continuation of globalization inevitable?” I am tempted to turn this question into another: “Can globalization survive itself?” That is, globalization by its very nature engenders dissatisfaction and becomes a convenient target for dissatisfactions that are also not even caused by it. As a result, I would argue, some of the major questions the world faces are the following: how deeply rooted is globalization? What forces could undermine it? How likely is this undermining of globalization actually to happen?

How we can seek to answer these questions about globalization? One important way that has not been explored enough, I believe, is to look at globalization today in the light of history, particularly the history of what I would call “the first era of globalization”, the generation before

¹Robert Gilpin, The Challenge of Global Capitalism: The World Economy in the 21st Century (Princeton, 2000); Thomas Friedman, The Lexus and the Olive Tree (New York, 1999).

²Arjun Appadurai, Modernity at Large: Cultural Dimensions of Globalization (Minneapolis, 1996); Ulrich Beck, What is Globalization? (Cambridge, 2000); John Tomlinson, Globalization and Culture (Chicago, 1999).

the First World War and the near collapse of globalization in the period of the two world wars. Our era is not the first time globalization has happened. The late nineteenth century, roughly the years from 1875 up to 1914, when the First World War broke out, saw an enormous increase in international trade, the first undersea telegraph cables, cables that created world prices, and a huge flow of investment that built harbors, railroads, and mines in Asia, Africa, and Latin America.³ In fact, foreign direct investment was probably higher in 1914 than it would be again until the 1980s. Looking at what that “first era of globalization” was like, and why it collapsed and was not revived, can help us understand, first, where globalization comes from, second, what it depends upon to continue, third, how similar and different from earlier international economic growth our present era is, and then, fourth, what lessons we might draw from the differing histories of globalization. As Bismarck put it, “Fools say they learn from their own experience. I have always contrived to get my experience at the expense of others.”⁴ If we can learn from the experience of history, we may avoid more painful experiences in the future.

Origins of Globalization

First, I would like to suggest where globalization came from. Globalization, I believe, is the latest, and most powerful stage of the process of economic growth and state-building that began in the Renaissance in western Europe. Globalization is built on the connections among world areas that began with the voyages of discovery in the 1500s and the explosion of technological innovations that we call the industrial revolution of the late 18th and early 19th century—a revolution that is still going on today. As long as there are technological innovations—first the steam engine, then electrical transmission, the internal combustion engine, and now the computer—that lower costs and raise efficiency, there will be pressure to carry the benefits of these changes to countries that have not yet experienced them. And, as long as political and cultural barriers do not impede travel, trade, and capital, transportation connections will carry further the impact of expanding economies.

One can naturally ask, what has held globalization back? If globalization’s foundations are so deep, why did it not happen earlier and why has it not swept the world already? Why, if the process of connecting major world areas began in the voyages of discovery in the 16th century, did globalization not really become a powerful force until the late nineteenth century? There is a line of scholarship, most closely associated with Immanuel Wallerstein, that argues that, in fact, the sixteenth century was already the decisive break with traditional society. Globalization, in this sense, began in the 1500s.⁵ I think the balance of evidence, however, is heavily on the side that

³Perhaps the best analysis in any language is Hans Pohl, Aufbruch der Weltwirtschaft: Geschichte der Weltwirtschaft von der Mitte des 19. Jahrhunderts bis zum Ersten Weltkrieg (Stuttgart, 1989).

⁴Quoted in Fredrick Maurice, Governments and War (London, 1926), 147.

⁵Immanuel Wallerstein, The Modern World-System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century [The Modern World-System I] (New York, 1974); The Modern World-System III: The Second Great Era of Great Expansion of the Capitalist World-Economy (New York, 1999). For analyses of Wallerstein’s impact on the globalization

argues that only in the nineteenth century does Europe's balance of trade with the rest of the world decisively shift toward Europe. At the same time, only in the nineteenth century did European trade, shipping, and capital begin to transform non-European areas into a single economy centered on western Europe.⁶

Why would the nineteenth century be the time of a decisive break towards globalization if the transportation links, the tendency toward economic growth, and the beginnings of technological innovation are much older? One reason is simply the level of technology. It took several centuries to develop better ships, more powerful means of locomotion, and to lower costs of production that could then produce mass quantities of goods. Wars and political instability also explain some of the obstacles to economic change. High interest rates and fear of the future do not make for a good climate for long-term investment or risky innovation. Besides the absence of technology and the presence of war and political instability, however, we have to remember that the cultural and political barriers against economic change in most societies are usually very strong. Allowing technology and consumerism to penetrate one's society is to take the risk that the losers in economic change will be outnumbered by the winners. Western Europeans and North Americans have tended to take that risk over the last 200 years, but this was a wrenching change for traditional societies in Europe, and similar changes are difficult elsewhere as well. Repealing guild regulations, ending usury laws, allowing impersonal incorporation of businesses, and establishing individual property rights was a centuries-long process in Europe. Even today many societies in Africa, Latin America, and Asia tend much more to protect producers and be wary of relying on international markets.

Yet by the late nineteenth century, Western Europeans and North Americans had chosen to create an engine of change in globalizing economic growth. If we are to understand how deeply rooted globalization is and how likely it is to be undermined, one of the most useful paths of inquiry for us to compare globalization before 1914 with that of today. What is similar and what is different about these two eras of globalization?

Institutions, Investments, and Finance in the Nineteenth Century

debate, Peter Imbusch, 'Das Moderne Weltsystem': Eine Kritik der Weltsystemtheorie Immanuel Wallersteins (Marburg, 1990); Carl Strikwerda, "From World-Systems to Globalization: Theories of Transnational Change and the Place of the United States," American Studies, 41:2/3 (Summer/Fall, 2000): 333-348.

⁶Kevin O'Rourke and Jeffrey Williamson, Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy (Cambridge, Mass., 1999); Andre Gunder Frank, Re-Orient: Global Economy in the Asian Age (Berkeley, 1998); Kenneth Pomeranz, The Great Divergence: China, Europe, the Making of the Modern World Economy (Princeton, 2000).

Let us look briefly at three of the key aspects of international economic growth before 1914 which made it profoundly different than what had come before the nineteenth century and that are essential foundations of the globalization of today. These characteristics, in fact, help us define late nineteenth century economic growth as not simply growth, but a qualitative change in how economic growth occurs. I would point out three aspects: international institutions and organization, the diversity or multi-polar direction of investment and capital movements, and international finance.

First, there was an institutional set of arrangements that supported international economic growth. Trade itself, even among widely-separated areas, is, of course, as old as civilization itself. The silk roads of central Asia are the most famous example, but one could also point out that Chinese and Arab merchants had traded with each other by sea during the Tang dynasty.⁷ What was new in the 1800s was that states and groups of business people in various countries bound themselves together to standardize contracts, protect property rights, facilitate currency exchange, and regulate communications links. Breakthroughs in technology and transportation were able to power globalization in the late nineteenth century, in other words, because Europeans and North Americans created a web of international organizations and agreements that bound together the international economy. Many of these organizations and agreements we take for granted today, but they are fundamental to the running of a global economy: the international postal union allows mail to move freely, shipping agreements permit freight to be shipped, and communications treaties create telephone and telegram links. Everything we have today in aviation, international property rights, and even the internet is built on the foundation of international cooperation that was laid over a century ago.⁸ In this sense, the nineteenth century was the great divide in world history, between eras of slow, episodic communication among peoples and the creation of what is today an emerging world society. Until the 1800s, Europe and Asia were connected only by sailing ship, so that it could take months, indeed almost a year for news or ideas to go to one place and then return. With undersea cables and, first, telegraph and, then, telephone connections, news and information could travel in seconds between London and Calcutta and back again. Human awareness of the globe created a sense of universal consciousness, “mental ubiquity” in one writer’s words. As he wrote in 1901,

This is a revolution of colossal importance. A hundred years ago, the most extravagant imagination could not have suggested what has been accomplished.⁹

Fundamental to the institutional cooperation supporting communications and

⁷David Christian, “Silk Roads or Steppe Roads? The Silk Roads in World History,” Journal of World History, 11:1 (Spring, 2000), 1-26; Joanna Whaley-Cohen, The Sextants of Beijing: Currents of Globalization in Chinese History (New York, 1999).

⁸Craig Murphy, International Organization and Industrial Change: Global Governance Since 1850 (Cambridge, 1994).

⁹Novico, Federation de l’Europe. 524

transportation was relative peace among the major powers. The level of deaths caused by war in the nineteenth century was only one-seventh the level of the eighteenth century, itself not by any means the most violent period of European history. During the nineteenth century, only the Crimean War involved more than two great powers. It occurred outside the heartland of Europe, and real fighting lasted only a few months. Peace among the great powers made it possible to call congresses, set up international organizations headquartered in Paris, Berne, Geneva, or Brussels, and to work out treaties, all without hostilities interrupting negotiations. These, in turn, were the foundation of international economic growth. Some believed, like Kant and Cobden, that increasing trade and contacts across borders would by itself bring about peace. Or, as German economist John Prince Smith put it in 1860, “Had we advanced so far to see a good customer in every foreigner, there would be much less inclination to shoot at him.”¹⁰ Until the Balkan Wars and the intensifying of the Anglo-German naval race on the eve of 1914, many political leaders believed that cooperation could overcome international antagonisms. “International organizations,” said German Socialist Wilhelm Liebknecht, “are crystals which will form into the society of the future.”¹¹ Winston Churchill, not known for his starry-eyed idealism in his later career, argued in 1908 that

with every year that passes over the globe, with every improvement in communication, with every decision of a Hague Tribunal, with every meeting of a Peace Conference or an International Congress of any sort or of any kind, the unity of the civilized world, and the interrelation and interdependence of all civilized modern communities, is being steadily and irresistibly advanced. Yes, in spite of the folly of armaments and tariffs, of the unwisdom of so many 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.¹²

A second key to the international economy of the late nineteenth century was the diversity of investment and other capital movements. Again, international capital movements by themselves are not radically new. The Medici and the Fuggers in the late medieval and early modern era moved large amounts of funds, and the eighteenth century saw the development of a sophisticated set of loans among Genoa, Geneva, the Netherlands, France, and Britain.¹³ The late nineteenth century was remarkable and innovative in that investors in western Europe could choose among virtually all the countries and regions of the world as to where to invest their savings. Railroads in China competed with streetcar companies in Uruguay that competed with grain elevators in southern Russia.¹⁴ Not all countries that were recipients of investment were similar in this system, of course.

¹⁰John Prince Smith, “On the Significance of Freedom of Trade in World Politics,” Western Liberalism, 357. Source; Über die weltpolitische Bedeutung der Handelsfreiheit, Leipzig, 1860, 8.

¹¹Wilhelm Liebknecht, “World Politics, China Madness, Transvaal Wars,” Wilhelm Liebknecht and German Social Democracy: A Documentary Collection (Westport, Conn, 1994), 351.

¹²Report of the Proceedings of the International Free Trade Congress (London, 1908), 6-7.

¹³Larry Neal, The Age of Capital.

¹⁴See for example, Recueil Financier 1914 (Brussels, 1915).

Colonies obviously had their economies skewed toward certain sectors by the dictates of governments. But there was a large disparity between, for example, how the United States opened itself up to foreign investment and gained from it whereas Argentina, for example, accepted foreign investment and never developed any economic independence. In some cases, this was due to the differing decisions of governments that decided whether or not to integrate into the international system.¹⁵

Nonetheless, the breakthrough in the nineteenth century was that there were so many areas realistically offering investment opportunities. The competition for capital radically increased the spread and quality of information, pulled huge amounts of new capital into the economy, and ensured that a recession or soured investments in one or two areas did not contract financial movements in general. The result was that investment continued to flow and even to increase its scope across the globe. Colonialism was a tragic and unnecessary system of exploitation of non-European peoples. Yet it is true that the years before 1914 saw the first surge of growth in Latin America, Asia, and Africa that moved them closer economically to—not further away from—North America and Western Europe. In the years from 1914 through the 1970s, when international economic links contracted or grew more slowly, the gap between the so-called “Third World” and Western Europe and North America widened.¹⁶

International finance was a third key to the international economy of the late nineteenth century. The stability of the British pound, the gold standard that most currencies were based upon, and the maintenance of the such convertibility arrangements as the Latin Monetary Union created a high degree of security for international lenders and investors. Just as important, major banks, stock exchanges, and associations of bondholders in western Europe created a web of information about investment overseas that reached farther down into society than ever before. As one example, even merchants who farmed out linen thread to be woven into lace by farm girls in the isolated Franche-Comte region in south central France put their profits into investments in South America and Russia.¹⁷ The result was a veritable explosion of foreign investment, all across Western Europe. British foreign investment quadrupled between 1854 and 1874, and then quadrupled again by 1913.¹⁸ Private groups, particularly the Corporation of Foreign Bondholders which formed in 1868, in Britain, and its counterparts in France and other countries, ensured fiscal

¹⁵Colin Lewis, “The Economics of the Latin American State,” States and Sovereignty in the Global Economy, David Smith, et al, eds. (London, 1999); Imbusch, 183-201; Guilo M. Gallarotti, The Anatomy of an International Monetary Regime: The Classical Gold Standard, 1880-1914 (Oxford, 1995), 178.

¹⁶Phillipe Aghion and Jeffrey Williamson, Growth, Inequality, and Globalization: Theory, History, and Policy (Cambridge, 1998).

¹⁷John Sweets, “The Lacemakers of Le Puy,” 1992 paper.

¹⁸Albert H. Imlah, Economic Elements in the Pax Britannica (Cambridge, Mass., 1958), 72-75. Check Davis and Huttenback.

discipline by spreading news of defaults and advocating low credit ratings for those countries or foreign corporations that had defaulted. Foreign direct investment was higher in 1914 than it would be again until the 1980s. Despite the enormous growth of markets in recent years, probably only in the late 1990s did the volatility of capital—the rate that the existing capital actually is transferred—go above the level of 1914.¹⁹

The First World War and Its Aftermath

We can see what globalization depends upon when we look at what happened to that first era of international economic growth before 1914. The era ended in the First World War. The First World War, I would argue, represented an enormous backlash against globalization. The social sectors hurt by rapid economic growth—the lower middle class, farmers, laborers, conservative economic elites—turned against international economic ties and supported militaristic solutions to try to ensure their security and prosperity. The result was an unmitigated disaster that left scars on the world's development for 75 years. The War killed almost nine million people, and cost, in today's terms, a trillion dollars. Overseas investments were sold off, governments seized the property of enemy countries, and international trade drastically declined.

But why, we may ask, did globalization not come back in the 1920s, when the War was over? Looking back, I would argue, at why globalization did not resume its growth in the 1920s makes us realize what was remarkable about the late nineteenth century and what the real breakthrough of the recent era of globalization is. It may seem that we all know the answer as to why international economic growth failed to return at the same level in the 1920s as it had had in the pre-1914 era. In short, the First World War and its aftermath destroyed the international economy. In one sense, I think that this is true, but the answer is not as obvious as it would seem. By looking more closely at why globalization failed to return in the 1920s, I believe we can understand the present and recent past more clearly. Globalization is not inevitable. It depends on certain key institutional supports among states. We have made enormous progress since 1945. We have choices before us: to avoid the dangers that the 1920s presented and to continue the difficult but rewarding task of international cooperation that is the essential foundation of globalization.

First of all, it is important to consider that globalization could have returned in the 1920s and that the Depression was not the inevitable result of the First World War. As destructive as the War and the ensuing chaos were, already by 1925 manufacturing production in Europe exceeded the level of 1913, the last full year of pre-War peace. For the world as a whole, since the United States, Japan, and several other countries had actually grown significantly during the War at Europe's expense, total production was much higher, 21.6 percent higher than in 1913.²⁰ Furthermore, the War stimulated a large number of innovations or speeded up the introduction of innovations that had been experimented with before the War. Radio, airplanes, the burning of oil instead of coal, chemical and other synthetic production of various products, cars and trucks driven

¹⁹Maurice Obstfeld and Alan Taylor, unpublished paper, 2002.

²⁰Ingvar Svennilson, Growth and Stagnation in the European Economy (Geneva, 1954), 204-05.

by the internal combustion engine, the use of electricity—one could go on and on, but there were a large number of innovations that spread through major industrialized economies in the 1920s. Together, they cut many costs and stimulated demand.

Furthermore, the economic collapse of the Great Depression was not as total as one might think. There were a number of countries that actually experienced a fair degree of economic growth in the 1930s. Britain, for whom the early 1920s recession following the War had been very severe, actually experienced higher growth per capita in its Gross National Product in the 1930s than in the 1920s. Austria, Denmark, Finland, Italy, Norway, and Sweden also all experienced net economic growth in the 1930s, although in most cases it was lower than in the 1920s. The other two countries that experienced growth are both special cases, one could argue, but they are instructive nonetheless. Both Germany and the Soviet Union experienced average annual growth rates of over 4 percent in the 1930s.²¹ Despite the diversity of these countries' situations, when one adds in the relatively strong economic performance of Japan, which managed to escape the worst effects of the Depression, one could argue that there was the basis for a larger level of economic growth in the world economy overall in the interwar period. In short, it is not out of the question that globalization, in the sense of sustained international economic growth across most areas of the world, could have come back in the 1920s.

As we know, the countries we have mentioned were exceptions, their economic growth in most cases was much weaker than it had been in the pre-1914 era, and their growth was not sufficient to provide a basis for globalization to return. Why not? There are five major reasons, I believe, why international economic growth did not come back in the 1920s as it had in the late nineteenth century. Looking at these factors can be an instructive and sobering lesson about what, by contrast, made globalization possible again in the late twentieth century. The five reasons that I see, and there may well be more, are:

First, state actions against international economic ties during the War and its aftermath

Second, the much higher level of protectionism after the War.

Third, the contraction of migration carried out after the War.

Fourth, the strengthening of imperial economies during the interwar era.

Fifth, and most importantly, the failure of international leadership.

First, state actions against international economic ties during the War and its aftermath

The nineteenth century globalized economy, it turned out, was much more dependent on fragile informal rules than anyone had grasped. Immediately after World War One, John Maynard

²¹Paul Bairoch, Economics and World History(Chicago, 1993), 6-9.

Keynes wrote, “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 Foreign investment had occurred so smoothly in the pre-1914 world that many people had hardly noticed it. When local officials in Dortmund, Germany during World War I were first told by authorities in Berlin to report on which companies in their area were owned by investors from Allied countries, they initially replied that they knew of almost none and had no idea how to find out which firms were British, Belgian, or French-owned. They soon learned to their surprise that there were more mines, breweries, and other companies owned by foreign investors than they had realized.²³ The tradition that ownership was a private matter could be hard to break. Initially, the British Board of Trade resisted even publishing the names of German owned firms for fear that this would result in acts of vandalism and boycotts.²⁴

Once states decisively moved to regulate, seize, and cut off international economic ties, however, the world economy as a whole suffered mortal wounds. During the War, enemy property, in the broadest sense of the term, was seized. The legal term was “sequestered.” It was then sold to others.²⁵ This nearly destroyed one of the foundations of the global economy of the nineteenth century. Germany, in particular, lost large investments in Britain, France, and the United States, although Germany, too, seized what Allied investments there were inside German borders.²⁶ In wartime, in theory, 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 this ever happen.²⁷ Yet when governments seized property during the War, almost no foreign investors were compensated after World War I.

Second, the much higher level of protectionism after the War.

The war left a huge residue of protective tariffs and quotas that stifled international trade. Although much emphasis has been placed on the increase in tariffs in the late nineteenth century, this increase only looked large in comparison to the introduction of free trade in the period of the 1840s to 1860s. In fact, the increase in the late nineteenth century was not large, the fall in

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

²³Reports, Westfälische Wirtschaftsarchiv, 1915, Dortmund.

²⁴“The Board of Trade and German Firms,” The New Europe, 1:4, 9 November, 1916, 127.

²⁵Paul F. Simonson, Private Property and Rights in Enemy Countries (London, 1921).

²⁶Thomas Kabisch, Deutsches Kapital in den USA: Vor der Reichsgründung bis zur Sequestrierung (1917) und Freigabe (Stuttgart, 1982), 284-326.

²⁷D.C.M. Platt, “The Imperialism of Free Trade: Some Reservations,” Economic History Review, 2nd series, 21, (August, 1968), 306.

transportation costs offset much of the increase, and the increase in tariffs after the First World War was much larger than that of the late nineteenth century. Outside of Spain and Russia, which had always had high tariffs and had never participated in the era of free trade, average tariffs on manufactured goods in Continental Europe went from 9.4 percent in 1875 to 13.9 in 1913. By 1925, tariffs had risen to 15.5 and by 1931 to 25 percent.²⁸

International trade was and is fundamental to economic growth itself. The growth in exports in the international economy as a whole was and is the best predictor of economies' growth. In the major periods of economic growth that the world has known—before the First World War and since 1950— export volume has grown faster than real gross domestic product (GDP). Only in the period of the two world wars and the Depression did exports grow more slowly than real GDP, and these were the slowest periods of growth.

	<u>Percentage Growth of Real GDP</u>	<u>Percentage Growth of Export Volume</u> ²⁹
1870-1914	2.1	3.2
1914-1950	1.4	-0.1
1950-73	4.7	8.4
1973-94	2.1	4.1

The contraction of world trade was both a cause of the international economic slowdown and a profound symptom of the breakdown in international relations. Winston Churchill, in 1908, had proclaimed,

What is the bearing of Free Trade upon international relations?' I say that question is easily answered. It is answered in one word. The bearing of Free Trade upon international relations is 'Peace.' The fundamental idea of Protection is exclusion and isolation. The fundamental idea of Free Trade is unity and interdependence.³⁰

²⁸Calculated from Paul Bairoch, Economics and World History (Chicago, 1993), 40.

²⁹Angus Maddison, Monitoring the World Economy, 1820-1992 (Paris, 1995); Max Stephan-Schulze, "Conclusion: The Post-War European Economy in Long-Term Perspective," Western Europe: Economic and Social Change Since 1945, ed. Schulze (London, 1999), 373.

³⁰Report of the Proceedings of the International Free Trade Congress (London, 1908), 5.

By contrast, Europe was divided after the War because, as one French economist put it, “Another war continues, the more stubborn as its attacks are indirect: the war over tariff” [guerre douaniere]. This economic war, he argued, required “disarmament in tariffs” [desarmament tarifaire].³¹ In September, 1929, the Tenth Assembly of the League voted a resolution in favor of a “Tariff Truce,” but with the Wall Street Crash occurring at the same time, almost nothing was done.

It was not just the increase in tariff rates that choked off trade. Commercial agreements after the War were often more tentative than before 1914. The League of Nations found that of 196 pre-War treaties, 112 were for five years. Of 307 post-War treaties, only 40 were for five years. Similarly, 139 of the pre-War treaties had a clause that stipulated that a year’s warning was required before renouncing the treaty; only 52 of the post-War treaties did.³² Europe after the War also saw a huge increase in the specificity of tariffs.³³ This was in part because of new goods—radio, nylon, airplanes—but it was also due to the sheer intensity to keep out foreign goods.

Number of Items Included in Tariff Schedule ³⁴

	<u>1892</u>	<u>1927</u>
France	1,500	4,321
	<u>1888</u>	<u>1925</u>
Germany	489	2,300
	<u>1878</u>	<u>1921</u>
Italy	535	2,777

Cartels in the interwar era served as a poor substitute for international economic cooperation.³⁵ International cartels in iron and steel, sugar, and other goods acted as unofficial

³¹Louis Loucheur, preface to Robert Guilan, Les problemes douaniers Internationaux et la Societe des Nations (Paris, 1930), iii.

³²Guilan, Les problemes, 41.

³³A. Loverday, “World Economic Conditions,” The Economic Consequences of the League (London, 1927), 26-39.

³⁴Guilan, Les problemes douaniers, 77.

³⁵Louis Loucheur, “Introduction,” Guilan, Les problemes douaniers, vi.

international agencies trying to regulate trade. In the Depression, even these came under enormous pressure and often ceased to work effectively.³⁶ The 1930s were the heyday of governments trying to control trade. Germany, under Nazi control, regulated large amounts of its international trade through agreements with governments. Even the United States, which had rarely used government controls to regulate trade, entered into over twenty bilateral agreements between 1934 and 1938 whereby other countries got concessions or exceptions to US tariffs or quotas for their goods in exchange for accepting US goods.

The effect was that trade became more complicated, more restricted and costly, and never revived as fully as it needed to in order to re-start globalization. The same was true of finance.³⁷ Britain had always been the leading trading nation of the world, and its loans had provided the foundation of trade for almost all countries. In the interwar period, it shifted its economic activity increasingly away from world trade toward either the Empire or domestic activity. Britain had led the international economic expansion of the nineteenth century. It drew back in the interwar period. Between 1911 and 1913, nearly 80 percent of British foreign loans went overseas; in 1934, only 20 percent did.³⁸ In the Depression, it was the fall in international trade more than any other single factor that indicated that this was not an ordinary recession. Between 1929 and 1932, while employment fell by as much as a third in the hardest-hit countries such as Germany and the United States, the economic indicator that fell the most was international trade, falling by almost two-thirds. It never revived fully until the 1950s.

Third, the contraction of migration carried out after the War.

Whereas the relatively free movement of labor was one of the hallmarks of the international economy of the pre-1914 era, the War began a process of drastically curtailing migration. Passports, identity cards, work permits, and residential controls were all imposed for the first time, made compulsory, or made much more restrictive. The French government created a new identity card in 1916 which had to be carried by all new immigrant workers. In 1917, it was imposed on all foreigners.³⁹ Germany had set a model of controlling immigrant workers before the War with its controls on foreign Polish laborers. In the War, the government extended the controls on the Poles to all foreign workers and expanded its powers to deport foreign workers.⁴⁰ The German model of

³⁶Ulrich Nocken, "Das Internationale Stahlkartelle und die deutsch-französischen Beziehungen 1924-1932," Konstellationen internationaler Politik 1924-1932, ed. Gustav Schmidt (Bochum, 1983).

³⁷Luard, Economic Relationships Among States, 45-6.

³⁸Lipson, 66-67, citing Aldcroft, The Interwar Economy: Britain, 1919-1939 (London, 1969), 264-66; Aldcroft and Harry W. Richardson, The British Economy, 1870-1939 (London, 1969), 87.

³⁹Patrick Fridenson, "Introduction," The French Home Front, ed. Fridenson (Oxford, 1992), 7.

⁴⁰Ulrich Herbert, A History of Foreign Labor in Germany, 1880-1980 (Ann Arbor, 1984), 285-304;

regulated migration, whereby groups of foreign workers would be brought in under certain conditions and, then, in theory, be returned, was copied by France on large scale in the interwar era. Agreements with Poland, Mussolini's Italy, and other countries controlled most of the migration to France.⁴¹ The most drastic control of all was that of the United States which simply imposed the Quotas Act of 1924, an agreement hailed in the Los Angeles Times as a "Nordic Victory." The Quotas Act cut migration from eastern and southern Europe where millions of under-employed peasants and workers wanted to migrate. The underlying potential for migration was revealed when the War ended. In the early 1920s, as transportation links revived, immigration to the U.S. from Europe soared from 159,000 to 580,000. The Quotas Act slashed this to only 20,247 in 1925.⁴² The curtailing of migration pushed up unemployment in Europe, depressed demand, and ended the process by which labor costs had been forced to rise in Europe as workers left for jobs in the U.S. or other labor-scarce countries. Along with the underlying weakness of agriculture throughout the 1920s, this ending of free migration was one of the other key factors that helped set up Europe for a major recession well before the Depression hit.

Fourth, the strengthening of imperial economies during the interwar era.

One of the crucial breakthroughs in the nineteenth century was that there were so many areas realistically offering investment opportunities. The competition for capital radically increased the spread and quality of information, pulled huge amounts of new capital into the international economy, and ensured that a recession or soured investments in one or two areas did not contract financial movements in general. The result was that investment continued to flow and even to increase its scope across the globe. Colonialism was a tragic and unnecessary system of exploitation of non-European peoples. Yet it is true that the years before 1914 saw the first surge of growth in Latin America, Asia, and Africa that moved them closer—not further away from—North America and Western Europe. In the years from 1914 through the 1970s, when international economic links contracted or grew more slowly, the gap between the so-called "Third World" and Western Europe and North America widened.⁴³

Klaus Bade, "Labour, Migration, and the State," Population, Labour, and Migration in 19th and 20th Century Germany, (New York, 1987), 80-2.

⁴¹Donald Reid, "The Politics of Immigrant Workers in Twentieth Century France," The Politics of Immigrant Workers: Labor Activism and Migration in the World Economy since 1830, eds. Camille Guerin-Gonzales and Carl Strikwerda, (New York, 1993), 267-69.

⁴²H.A. Genery, "Immigrants and Emigrants: International Migration and the US Labor Market in the Great Depression," Migration and the International Labor Market, 1850-1939, eds. Timothy Hatton and Jeffrey Williamson (London, 1994).

⁴³Phillipe Aghion and Jeffrey Williamson, Growth, Inequality, and Globalization: Theory, History, and Policy (Cambridge, 1998).

By contrast, after the War, the Allied countries focused more narrowly on trade and investments with their own colonies. The post-World War I era was actually the real era of imperialism, in an economic sense. France, Britain, Belgium, the Netherlands, and other imperial powers turned more to bilateral trade with their own colonies, away from multilateral trade, and directed their own colonies' trade more towards the mother country. In part, they were able to do this by the fact that German trade with their colonies had been cut off in 1914 and never allowed to resume, first by the War, and, second, by the blockade, chaos, and hyper-inflation of the early post-War era. This re-direction and narrowing of colonial trade 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.⁴⁴

The economic logic of imperialism and territorial expansion was stimulated among the Allies in the War by their misreading of Germany's economic strategy. Germany had grown as an economic power by trading with the entire world and by both borrowing capital from abroad and importing large amounts of food and raw materials. In 1913, Germany was the second largest importer of food in the world. To Germany's enemies in the War, however, the War showed that colonies and imperialism were needed as safeguards to protect a modern economy. Supposedly, the German deficit in its balance of trade demonstrated that she would be tempted to use force to ensure the raw materials and food she needed. As a pro-Allied Swiss author put it in 1916, Imperial Germany's leaders had supposedly been thinking:

What a temptation to make use of the military power before which the world has trembled for fifty years, if not to "double or increase by three times the area of the Empire," at least to round it off and add to it some fine new colonies already reclaimed by other nations!⁴⁵

As a result of this assumption about Germany's mentality, British, French, and Belgian governments in the interwar period encouraged investment and trade within their empires more than ever.⁴⁶ This flew in the face of the way the international economy had actually grown in the pre-1914 era. Imperialism itself never caused European wars, but imperialism's proponents grossly and successfully distorted public awareness of the world economy. The two most successful industrial powers of the pre-1914 era were the United States and Germany. They were the two least imperialist of the great powers. In 1913, trade with its colonies represented less than one percent of Germany's foreign trade. 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, German exports expanded greatly to French colonies, despite the French tariffs on imported goods. Germany's own statistics showed that German goods

⁴⁴Jaime De Melo and Arvid Panagariya, "Introduction," New Dimensions in Regional Integration, eds. De Melo and Panagariya (Cambridge, 1993), 9.

⁴⁵Maurice Millioud, The Ruling Caste and Frenzied Trade in Germany (Boston, 1916), 43.

⁴⁶Sally Marks, The Ebbing of European Ascendancy: An International History of the World, 1914-1945 (London, 2002), 123-50.

were rapidly penetrating 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 of needing a war to force open markets.

Value in Marks of German Exports to French Colonies⁴⁷

	<u>1901-02</u>	<u>1910</u>
Algeria	500,000	3,600,000
Tunisia	600,000	1.300.000
West Africa	2,400.000	4,500,000

Fifth, and most importantly, the failure of international leadership.

The most unappreciated key to the growth of the late nineteenth century was an institutional set of arrangements that supported international economic growth. Trade itself, even among widely-separated areas, is, of course, as old as civilization itself. What was new in the 1800s was that countries and groups of business people in various countries bound themselves together to standardize contracts, protect property rights, facilitate currency exchange, and regulate communications links. Breakthroughs in technology and transportation were able to power globalization in the late nineteenth century, in other words, because Europeans and North Americans created a web of international organizations and agreements that bound together the international economy. Many of these organizations and agreements we take for granted today, but they are fundamental to the running of a global economy: the international postal union allows mail to move freely, shipping agreements permit freight to be shipped, and communications treaties create telephone and telegram links. Everything we have today in aviation, international property rights, and even the internet is built on the foundation of international cooperation that was laid over a century ago.⁴⁸ In this sense, the nineteenth century was the great divide in world history, between eras of slow, episodic communication among peoples and the creation of what is today an emerging world society.

Fundamental to the institutional cooperation supporting communications and transportation was relative peace among the major powers. The level of deaths caused by war in the nineteenth century was only one-seventh the level of the eighteenth century, itself not by any means the most violent period of European history. During the nineteenth century, only the

⁴⁷Annual Statistics of German Empire [Guyot, Causes et consequences de la guerre, 210]

⁴⁸Craig Murphy, International Organization and Industrial Change: Global Governance Since 1850 (Cambridge, 1994).

Crimean War involved more than two great powers, and it occurred outside the heartland of Europe and real fighting lasted only a few months. Peace among the great powers made it possible to call congresses, set up international organizations in Paris, Berne, Geneva, or Brussels, and to work out treaties, all without hostilities interrupting negotiations. These, in turn, were the foundation of international economic growth. Some believed, like Kant and Cobden, that increasing trade and contacts across borders would by itself bring about peace. Or, as German economist John Prince Smith put it in 1860, “Had we advanced so far to see a good customer in every foreigner, there would be much less inclination to shoot at him.”⁴⁹ Right in the midst of a high degree of political tension in the pre-World War I era, there had been striking economic cooperation between the great powers. During the growing British-German tensions involved in the naval race which eventually led to the First World War, the British Petroleum Company and the German Petroleum Company formed the Europäische Petroleum Union in 1906 based in Bremen to compete with Standard Oil of the United States.⁵⁰

Globalization before 1914 had also depended on a stable currency, the British pound backed by gold. After World War I, the British pound was too weak to play this role again, and no other currency could take its place. This was not only a result of Britain’s financial weakness in the interwar period. It was also a result of the weakening of international cooperation after the War.⁵¹ In the late nineteenth century, central banks in Britain and France had learned to support each other during “panics”. During the War, Inter-Allied Cooperation had facilitated loans between the western Allies. And, during the early twenties, during the German hyper-inflation, all the Central Banks had already seen the costs of the failure to cooperate in international finance. Yet there was no international economic leadership either by a powerful economy such as Britain, the US, nor any group of countries or organization. When the Great Depression hit, every country tried to save itself, and the world economy virtually collapsed.⁵² One of the most important casualties of the First World War had been international cooperation. One-third of the international organizations and agreements reached in the late nineteenth century dissolved or were repudiated during World War I.

One of the fundamental problems of the interwar period stemmed from the failure of the

⁴⁹John Prince Smith, “On the Significance of Freedom of Trade in World Politics,” Western Liberalism, 357. Source; Über die weltpolitische Bedeutung der Handelsfreiheit, Leipzig, 1860, 8.

⁵⁰Ol; Yergin; Milliod, The Ruling Caste and Frenzied Trade in Germany, 129.

⁵¹Tanim Bayoumi, et al, eds., Modern Perspectives on the Gold Standard (Cambridge, 1996).

⁵²Derek Aldcroft, From Versailles to Wall Street, 1919-1929 (Berkeley, 1977); Carl Strikwerda, “Reinterpreting the History of European Integration: Business, Labor, and Social Citizenship in Twentieth Century Europe,” European Integration in Social and Historical Perspective, 1850 to the Present, eds. Jytte Klausen and Louise Tilly (Lanham, 1998).

Allies during the War to plan for the post-war era, except for vague commitments to continue Inter-Allied Economic Cooperation, which, in fact, ended almost as soon as the War did. The alienation of Germany in the Versailles Peace Treaty and the 1920s was one of the major flaws of the post-War system. This was not an inevitable result of the War. G. Lowes Dickinson, whose analysis of the causes of the War became fundamental to most post-World War I scholarship, had insisted on Germany's and Austria's inclusion in a "League for Peace":

in the event of a victory by the Allies, everything possible should be done not to alienate Germany from the European system.⁵³

⁵³Dickinson, After the War, 26.

Britain had a measure of goodwill in trying to exert leadership at the Economic Conferences organized by the League of Nations at Brussels, Barcelona, and Geneva. British ability to forge an international agreement among governments, however, was hampered by the British government's own isolation traditions in foreign policy. In the pre-1914 period, British economic institutions and business leaders had played the central role in the international economy. But the British government was less involved often in promoting international institutions than was France or the United States. During the War, Britain had begun to break away from laissez-faire policies in its domestic economy. But it did so in ways that reacted against international economic ties. The British government seized German property in Britain during the War and did not return it, and vowed after the War to protect its so-called "key industries" along neo-mercantilist lines. After the War, at the international level, British leaders could not bring themselves to create agreements that would promote international relations. There was a widespread recognition that international political stability depended on government action to stabilize the international economic system. Ramsay MacDonald called the Dawes Plan of 1924 "the first Peace Treaty".⁵⁴ But in general, there was a strong tendency to regulate economies at the national level in a way that made international cooperation difficult, while there was a failure to create governmental cooperation on the international level so that the international economy could flourish.

A good example of the complexities the Allies faced after the War is the struggle to re-connect Russia, now the Soviet Union, with the rest of the international economy. Before 1914, the Russian empire had been one of the largest sites for foreign investment. One-quarter of all French foreign investment had been there. The ability to choose between investing in Russia and in other sites around the world was one of key factors in creating a more diverse, competitive world economy. British tried to bring together other European investors, Americans, and the Soviets to agree on how to channel foreign investments into the new Soviet Union. Unfortunately, this became entangled in the battle over the Soviets' seizure of foreign investments. The Allies' sequestering of foreign properties in the War had been a model for the Soviets—and later for Mexico, Turkey, and China. The British tried to resolve the battle over the Soviet seizures of property. They conceded to the right to confiscate, but expected that the country confiscating foreign properties would pay full compensation. The Soviets refused to pay any compensation. As one author puts it:

The British plan did not confront the unprecedented character of the Soviet acts. The very meaning of property had been transformed, and the old rules were unsuited to the new issues.⁵⁵

Americans, Belgians, and French wanted restitution, which was impossible under the Soviets' abolition of private property. So the Allies' attempt at united front collapsed, the Soviets kept the property they seized, and companies and countries rushed to write bilateral treaties to develop natural resources in USSR. The Soviets managed to re-write the nineteenth century rules and get away with it, but also made it impossible for rules to survive unchanged elsewhere. The result was

⁵⁴ Quoted in Gilbert, 1966, 111. (Quoted in McMillan, *Democracy*, 155).

⁵⁵Lipson, 67.

that foreign investment all over the world was curtailed for decades.

The League of Nations, too, tried and failed in a number of conferences in the 1920s and 30s to resolve the crisis over foreign investment. Poor countries succeeded in blocking British-led attempts to rebuild the pre-1914 regime. The resulting stalemate contrasts markedly with prewar outcomes. In 1907, at an international conference on international rules for investors, Latin American states had added one important item to the agenda, “[curtailing] forcible debt collection,” and slightly modified one normative aspect of property protection. In 1929 and 1930, the same states, joined by India and several East European countries were ultimately able to veto the entire conference agendas.⁵⁶

⁵⁶Lipson, 76.

Unfortunately, the League of Nations officially had almost no involvement in any economic issues. It was quickly forgotten that the fourteenth of Woodrow Wilson's points was lowering tariffs. The only mention of economic issues in the League's Covenant is in Article 23, which pledged states to "to secure and maintain equitable treatment for the commerce of all members of the League."⁵⁷ The League did convoke conferences on economic reconstruction and encouraged member nations to pursue cooperative solutions. One reason international economic cooperation proved difficult to achieve was that governments everywhere, in the wake of the Great War, enormously increased their own control over their home economies. To share power with international organizations or to give up some of their newly-won powers seemed to endanger them in the face of the clear threat of renewed conflict.

The other candidate for international leadership was, of course, the United States. The US economy had reversed its historic dependence on foreign capital and had become instead the world's largest creditor nation. The United States entered 1914 approximately \$4 billion in debt as an economy to foreign lenders, all of them European. By 1918, Europeans had liquidated all these debts, and US investors not only purchased the European assets, but had loaned approximately \$6 billion more to Europe. By the mid-1920s, another \$10 billion in loans and investments had flowed from the United States to Europe and other nations. The US, however, was not willing to assume international leadership. One reason was simply that the political and economic leadership of the country was unprepared for international involvement beyond strictly commercial dealings. In 1922, a young American economist pointed out:

The past eight years have brought about for the United States with spectacular suddenness a fundamental change of international position. What occurred in Great Britain over a period of several generations dating from 1855, the war has thrust upon this country in a few short years.⁵⁸

At the same time, leaders and the public in the United States failed to grasp that the US had enormous responsibilities linked to the Inter-Allied War Debts and to the importance of American goods and capital on the European market. As late as 1923, even a self-described "international banker" from New York City, Otto Kahn, reassured a chamber of commerce audience, "The American banker's market is the home market." The United States exerting its leadership in the interwar period was also doubly difficult because so much of the population and leadership in the U.S. thought of the country as not connected to the international economy. There was some truth to this view. The United States was the undoubted economic leader of the world after 1918, and only real creditor nation. Yet the United States, due to its own productivity and its high tariffs, had never developed a large international trade. In 1929, the U.S. was only 25th in the world in imports per capita.⁵⁹

⁵⁷Anthony Harrison, The Framework of Economic Activity (New York, 1967), 21.

⁵⁸John H. Williams, America and World Finance (no place, 1922?), 39-40.

⁵⁹Guillan, Les problèmes douaniers, 41.

The Collapse of Globalization in the Great Depression

The failure of the leaders of the larger countries to deal with the underlying economic problems left by the War undermined peace. As the Belgian Socialist leader Emile Vandervelde warned in 1927:

You do not have to be a follower of Marxist historical materialism to be convinced of the close dependence of political problems on economic problems. Everyone should be aware today that there will be no durable or solid peace in Europe or in the world if we do not create an economic peace that we can depend on.⁶⁰

The collapse of the world economy a few years later in the Great Depression was so profound that some observers questioned the fate of capitalism itself.⁶¹ By 1932, labor union leaders Ernest Bevin and G.D.H. Cole warned, “We are living on eve of one of those great world upheavals which are the turning points of history.”⁶² By 1933, a French writer could publish a book entitled, “If Capitalism Disappears.”⁶³ The German economist Wilhelm Ropke wondered if modern Europe was heading into a breakdown as far-reaching as that of the Roman Empire.⁶⁴ Only in retrospect did European observers realize that what the War and its aftermath had nearly destroyed was a larger sense of international community that had been gradually built up over centuries. Ropke, writing in 1939, attributed this sense of community to more than Britain’s hegemony:

How, then, can we explain the fact that during the last centuries international economic integration was able to develop in such a stupendous fashion? The political predominance of the British empire since her historical struggle with France during the middle of the eighteenth century was never a negligible factor in the situation. It is, indeed, doubtful whether the development of a modern world economy can be satisfactorily explained without due reference to the Pax Britannica; and there is much scope for speculation on the importance of the British rule of the seas for the rise of world-wide capitalism. But parallel to the rise of the British empire was a much more important development, which really explains why the international economic

⁶⁰Emile Vandervelde, “La Conference Economique de Geneve et le protectionisme europeen,” La Revue Economique Internationale, aout, 1927, 35.

⁶¹Patricia Clavin, The Great Depression in Europe, 1929-1939 (New York, 2000).

⁶²Ernest Bevin and G.D.H. Cole, The Crisis: What It Is How It Arose What To Do (London, 1932?), 3.

⁶³Lucien Romier, Si le capitalisme disparaissant (Paris, 1933).

⁶⁴Wilhelm Ropke, International Economic Disintegration, (New York, 1942), 20.

integration of our time has been possible in spite of the absence of a world state and its powerful socio-political framework. This was the spread of a commonly accepted ordre public international, based on international standards of conduct in peace and war, and on a network of international treaties or unwritten rules of international law, which were respected because there was an undisputed more code behind them.

It was a unique feature of the development of the last 200 years that economic integration could pass national frontiers as never before, because the world had found a working substitute for the non-existent world state or world-wide empire. Just as the universal gold standard was, to all intents and purposes, equivalent to a world money, so the high degree of moral and legal community of the different nations, which united the civilized world, was the nearest approach to an international super-state, despite all its glaring shortcomings and relapses, which it is, perhaps, easy to underrate at the present moment, when distance is beginning to lend its proverbial enchantment. It is a fact that nations were held together by a system of long-term treaties based on a generally accepted international law and on a far-reaching community of legal conceptions.⁶⁵

The Painful Recreation of Globalization Since 1945

By comparison, we can see what has helped gradually to re-build international economic integration since the end of the Second World War in 1945. The germs of renewed international economic cooperation actually began at the point where it seems to have disappeared altogether—in the bleak days of the Great Depression when every country was out to protect its own economy. When France finally abandoned the gold standard in 1936, it reached agreement with Britain and the United States to try to coordinate monetary policies to maintain international financial stability.⁶⁶ The Spanish Civil War, a renewed recession in 1938, and the coming of the Second World War prevented this coordination from reaching fruition, but it laid the groundwork for the Bretton-Woods system after 1945. Similarly, in the late 1930s, the U.S. Congress began to see the logic of lower tariffs. In the Reciprocal Trade Agreements Act (RTAA) of 1934, renewed in 1937 and 1940, Congress gave the United States President limited tariff-negotiating powers so that he could offer concessions of up to a 50 percent cut in tariffs if a country he was negotiating with offered similar concessions. By 1938, a third of the U.S. tariffs had been cut by 20 percent. Combined with the use of “Most-Favored-Nation”(MFN) agreements, whereby two countries agreed that they would grant each other the lowest tariffs they allowed any third country, the RTAA meant that the US could begin to play the role that Britain had in creating a free trade world in the nineteenth century. “By 1939, the United States had signed 20 MFN treaties with countries that accounted for 60 percent of its trade.”⁶⁷

⁶⁵Wilhelm Ropke, International Economic Disintegration [1939] (New York, 1942), 73-4.

⁶⁶Luard, Economic Relationships Among States, 41.

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Douglas Irwin, “Multilateral and Bilateral Trade Policies in the World Trading System: AN Historical Perspective,” in De Melo and Panagariya, eds., Regional Integration, 112-13.

The major steps after 1945 were three-fold. First, the US dollar in the Bretton Woods system, and, since the 1970s, a loose arrangement of the dollar, the Deutschmark or Euro, and the yen, linked in floating exchange rates, have provided greater financial stability than in the 20s and 30s. Second, agreements such as GATT and more recently the WTO have brought down tariffs and increased international trade. And, finally, at various times, the IMF, the Group of Eight, or US and international bankers have managed to keep financial crises from unhinging international trade and finance altogether. Behind these actions lay the commitment of the United States and Britain to bear the costs of recreating a stable Europe. The new international institutions of the late 1940s were a direct modeling of the kind of institutional cooperation that was advocated in the 1920s and never implemented.

The Uniqueness of Globalization Today

Globalization today builds on these foundations, but it is equally important to see that there are some things that are radically new about globalization today. The spread of international economic activity means that there are a more diverse set of poles of trade and investment than in the past. Before 1914, North American and Western Europeans traded and invested in Asia, Latin America, and Africa. Countries in these regions, with the exception of Japan, did not generate much international economic activity on their own. The wave of globalization in the last 20 years has begun to change this. East Asia represents the biggest success story of globalization thus far. High tech goods make up 22 percent of the manufactured goods that it exports, nearly the same as what the European Union exports. But there are other signs as well. Brazil, South Africa, and India all, despite the enormous problems of illiteracy and poverty that they face, have now begun to invest in and export to other countries. According to the UN, around 1980, there were about 6,000 multinational corporations, all of them based in the US, Europe, and Japan. By 2000, there were 60,000 multinational corporations, and probably 10,000 were from Latin America, Asia, and Africa. This is a part of globalization today that is a real break with the past.

Today there is also a much more formal level of organization in international affairs. The various international unions of the pre-1914 world performed an amazingly diverse set of activities very well, but many of them had no connection to each other, only limited connections to nation-states, and they were not connected to any larger organizations as so many of the international organizations of today under the United Nations.

This higher level of formal organization is also true in the area of great power relationships. The so-called “Concert of Europe” before 1914 was always informal, rested on custom, and depended on the good will of a few states. Nothing compelled the Great Powers to come together to settle the Balkan Wars except a tradition of consultation, a very weak national public opinion in a several countries, and self-interest. Russia and Austria-Hungary thought that Balkan autonomy had gone far enough, and Germany decided it was in its interests to support Austria-Hungary. A few years later, in the fateful summer of July, 1914, Germany and

Austria-Hungary decided differently, with tragic consequences.⁶⁸

Today, NATO, the alliance binding the US and Japan, and various regional organizations, such as ASEAN and OAU, and the Security Council of the UN are much more prepared mechanisms for mediating conflict and encouraging both the great powers and regional powers to negotiate or mediate conflicts. For their failures—and the failures are many, in Cambodia, East Timor, Rwanda, Kashmir, and Bosnia—these alliances and security arrangements still make for a more stable world and one less likely to stumble into war than what existed before World War I. What is more, the major industrial powers recognize, at least fitfully, that international political cooperation is a requisite for international economic stability. The G-8, become now, in effect, the G-10, consultation of major industrial states and partners represents a recognition of the connection between political and economic realms that simply did not exist until recently.

Similarly, the sheer scale and vitality of non-governmental organizations are a major breakthrough in globalization by comparison with earlier eras. International social movements were a novelty of the late nineteenth century, and they had only the most modest impact on governments—the Socialist international, the international women’s suffrage and women’s rights movements, international trade unions, movements against white slavery, etc. Today, NGOs are one of the major ways governments and the UN actually carry out their work. Much of the humanitarian aid sent to countries such as Bosnia, Afghanistan, and Cambodia by governments and even, in some cases, by inter-governmental organizations such as the UN and the EU is actually carried out at the local level by organizations as diverse as Save the Children, Medicins sans frontieres, the International Rescue Committee, and the like. If the total budgets of all non-governmental organizations in the world in 1998 were considered as one amount, and compared to the Gross National Product of the various countries of the world, the NGO sector would have ranked as the eighth largest economy in the world, right after Italy, and right before Brazil, with an estimated \$1.1 trillion budget.⁶⁹

Is Globalization a Good Thing?

If economic globalization has been accompanied by and made possible by such important institutional changes, we need to ask, is globalization ultimately a good thing for the world? We know many oppose globalization. In December, 1999, the cabinet ministers from the World Trade Organization countries were greeted by several thousand demonstrators in the streets of Seattle. In July, 2002, representatives of the leading industrial countries, the Group of Eight, meeting in Genoa, Italy, had to be protected from violent protestors outside in the streets. People have attacked globalization for spreading inequality, destroying the environment, and hurting

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Richard C. Hall, The Balkan Wars, 1912-1913: Prelude to the First World War (London, 2000); David G. Herrmann, The Arming of Europe and the Making of the First World War (Princeton, 1996), 173-224.

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InterAction Coalition Report, Washington, D.C., November, 1998.

workers in developed countries.⁷⁰ We normally think of anti-globalization as a position of the left, but there is a strong current of rightwing anti-globalism. Using language drawn from traditional American populism, one Christian fundamentalist wrote in 1997:

Under the guise of free trade, the one-world parasitic apparatus has now apparently been contrived and has begun siphoning strength and resolve from this nation and others. The global elitists now channel America's wealth, along with funds from other geopolitical and economic spheres, into Third-World countries at a rate greater than ever before. They constantly strive to solidify their one-world power base through material goods giveaways. They continue to create and consolidate an ever-increasing constituency dependent on those poorest of earth's people who move through their miserable lives from cradle to grave.⁷¹

But whether the arguments come from the left or the right, the balance of evidence is that globalization is a good thing. The distribution of wealth in undeveloped economies is and always has been unequal. The economic development brought by globalization does not make it unequal; often, economic development—with some fairer government policies—is the only way to create a more equal share of wealth and income.⁷² Poorer countries can afford to do little to protect their environments. Bangladesh is one of the world's most densely populated, ecologically vulnerable societies. But it is actually no more densely populated than Belgium and the Netherlands, economically developed societies that can afford to protect their water, health, air, and soil. Globalization does create disruption in richer countries when production moves to new places. But it also lowers costs, and, eventually, creates new customers. International trade and investment is not a zero-sum game. Sweden, for example, trades more with Taiwan, a country of only 18 million people that is 8,000 miles away, than it does with Russia, a country of 150 million people only 400 miles away. Why? Because similar economies have more that each of them want, have the money to pay for the goods, and have the infrastructure to make investment worthwhile.

Economic development will always carry problems in its wake that need to be remedied, but that does not take away from its being the one tool we have to lower poverty around the world. India and South Korea were at about the same level of economic development in 1960. By the 1990s, per capita income in South Korea was about five times that of India. Why? South Korea opened itself up more to international trade and investment. India shut itself off. Even in the financial crisis in South Korea of the late 1990s, almost no one would trade the living standards

⁷⁰Susan Aaronson, Taking Trade to the Streets: The Lost History of Public Efforts to Shape Globalization (Ann Arbor, 2001) provides a balanced review of anti-globalization efforts, although primarily focusing on the United States.

⁷¹William T. James, "Globalism's Siren Song," Foreshocks of Antichrist, ed. William Y. James (Eugene, 1997), 35.

⁷²David Dollar and Aart Kray, "Growth is Good for the Poor," World Bank, (Washington, D.C. Available at www.worldbank.org/research/growth/absddolakray.html and summarized in "Growth Is Good," The Economist, 27 May, 2000, 82.

of South Korea for those of India. And, not surprisingly, India over the last ten years has opened its economy much more than in the past.

I do not believe that, just because globalization has large potential economic benefits, we should assume that the free market by itself will distribute those benefits fairly. One of the great challenges facing the world is the need to ensure that multinational companies pay decent wages according to local standards, that environmental damage is checked, and that governments in developing countries redistribute some of the wealth generated by globalization into health, education, and social services.⁷³

Is Continued Globalization Inevitable?

For all the profound changes that contemporary globalization has unleashed, in certain critical ways, however, the late nineteenth century was still more globalized than our world is today. This by itself suggests that globalization is not unstoppable. Continued economic growth has always depended on political institutions as much as technology or entrepreneurship. Political institutions always possess the power to check globalization. They have used that power, and they will continue to do so. We still do not have the freedom of movement that many people in the world enjoyed before the First World War. By 1914, much of the globe was becoming a single labor market. Italian workers traveled each year from Europe to Argentina and back to work in different continents in different seasons.⁷⁴ Since 1914, passports, workpasses, identity papers, and the like have limited everyone's movements.

The stability of the world financial markets before 1914 that depended on the British pound, backed by gold, is something we lack today. World financial markets today are probably less stable than the world of the gold standard. We would not want to go back to the straightjacket that the gold standard represented. Yet it is one of the failures of the world economic system today that we have not evolved any kind of more formal stability for the world financial system than we have. Instead, as seen in the East Asian financial crisis of 1999, the IMF, central banks in a few of the major countries, and major private bankers have had to improvise solutions, and not done a very impressive job of it.

Furthermore, we have to realize how tentative the globalization that we have seen in our own time really is. It is only since the early 1990s with the collapse of the Soviet empire, the opening of China under Deng Xiaoping, and the end of apartheid in South Africa that investment and trade have flowed relatively freely among most of the major regions of the world. Although colonial empires and tariffs hampered globalization in the late nineteenth century, by and large the period of international economic expansion lasted longer before World War I—from about 1875 to 1914-- than what we have experienced in our own day. Furthermore, what is striking is

⁷³Ramesh Mishra, Globalization and the Welfare State (Cheltenham, 1999).

⁷⁴Carl Strikwerda, "Tides of Migration, Currents of History: The State, Economy, and the Transatlantic Movement of Labor in the Nineteenth and Twentieth Centuries," International Review of Social History, 44 (1999), 367-394.

how long it took to rebuild international economic growth after it ended in 1914. As Federal Reserve Board Vice Chair Alan Blinder observed in 1995, “To a significant degree, the industrialized nations of the world only recently re-attained the levels of economic integration that they had reached at the eve of World War I.”⁷⁵ Globalization remains vulnerable to some of the same forces that held it back before the late nineteenth century, kept it from returning in the 1920s, slowed its growth in the post-World War II era.

The short answer, then, to the question, “Is the onward march of globalization inevitable?” is, “No.” We can take comfort from the very fact that globalization has very deep roots. The tendency toward integrating markets across borders and continents is deeply embedded in modern history. It will continue to come back despite setbacks. But it is the tendency toward integrating markets that is very strong. Globalization or even a more modest integration of markets is not inevitable. It has been checked in the past, and it may well be in the future.

This story can teach us an important lesson. We are not simply victims of change. We can learn from the past and at least try to shape the future. The United States tried to turn its back on the world after the First World War, and the results were disastrous. Since 1945, with lots of missteps and backtracking along the way, the US and its allies have helped to build a better world than we would have had if we given up on international cooperation.

Myths and Illusions about Globalization

Yet the disastrous failure in which the first era of globalization ended in 1914 does force us to ask what underlying connections there might be between globalizing economic forces and political chaos. While the First World War was, I would argue, first of all a failure of the state system, it is also true, I believe, that fears and illusions about the international economy helped justify leaders’ drive towards military solutions. We should therefore examine if we have myths today, just as potentially destructive as the myths which helped destroyed the globalization of the late nineteenth century.

In the pre-1914 era, the imperialists and territorial expansionists were convinced that economic power depended on political power in a simple, mechanistic way, and that political power in the international arena also had to be carried out in a militaristic way. Bernhardt’s famous assertion in 1912 that Germany needed to prepare for a war rested oddly on a slim economic argument that he rather glibly slides over:

We cannot reject the possibility that a State, under the necessity of providing remunerative work for its population, may be driven into war.⁷⁶

And:

⁷⁵Quoted in “Back to the Trilling Trades of Yesteryear,” New York Times, 12 March, 1995, E5.

⁷⁶F, von Bernhardt, Germany and the Next War [1912] (New York, 1914), 24.

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.⁷⁷

Unfortunately, Bernhardt's arguments were not unusual. Only in reaction to the Boer War did British public opinion begin to swing back again against the acquisition of colonies as a means to ensure Britain's prosperity. In most of the major powers—France, Austria-Hungary, Italy, and Russia, not mention smaller powers and non-Western powers such as Japan—the equation of military and colonial power abroad as a means to guarantee economic power was still widely accepted.

The tragedy is that imperialism was almost always a costly and losing proposition. Nor, despite the arguments that continue to this day, was imperialism necessary to bring the benefits of industrialization to the non-Western world. European colonialism was not needed to change Asian and African areas. Thailand, Ethiopia, China, Liberia, Persia, Japan, and the Ottoman empire all acquired ports or railroads without Europeans exercising political control. In many ways, imperialism set back the natural progress of Asians and Africans adopting Western education and methods. On eve of ending of slave trade in West Africa, for example, the ports of what is now Ghana, Nigeria, and the Ivory Coast saw the beginnings of a westernized African class of merchants and officials who could be to modernize their societies. British and French conquests cut off what might have been progressive developments.⁷⁸

Nor was it necessary to conquer areas as a way to end the lawlessness present in some African and Asian regions. Only in the late nineteenth century were the Europeans determined to end violence in non-Western areas by themselves alone. In the seventeenth century both the Dutch and the British hired themselves out to Asian monarchs for use as navies to control pirates. From the mid-eighteenth century through the mid-nineteenth century, British allied at various times with the Shah of Persia and the Iman of Muscat to quash piracy in the Persian Gulf.⁷⁹

The danger is that we, too, may not see what it is about the globalization of our day that is essential and could easily be undermined. The United States is a classic example. The United States has gained more from globalization than perhaps any other country. When it has supported international cooperation such as the Marshall Plan, NATO, freer trade, the United Nations, and other international organizations, it has helped create a more peaceful and prosperous world. As we know only too well, however, the United States is a schizophrenic great power: at times, a generous leader among nations, at other times, in danger of being a rogue hegemon. By rejecting the rulings of the International Court of Justice, undercutting the Kyoto agreement on global warming, refusing to pay its portion of its dues to the UN, engaging in unilateral military action in Iraq, and raising tariffs on steel and increasing its farm subsidies, the United States has hurt itself and endangered peaceful international relations and globalization itself.

⁷⁷Bernhardt, 82.

⁷⁸Philip Curtin, Plantation System

⁷⁹Judith Williams, British Commercial Policy, 429-30.

Most troubling of all is the increased militarism in the United States. The fall of the Berlin Wall and the collapse of the Soviet Union did not bring about a lessening of U.S. military power. With four percent of the world's population, the U.S. accounts for 37 percent of all military spending. In world historical terms, we have an totally unprecedented, and dangerously unstable situation. The United States as the largest military power in the world has more armaments and more lethal potential in its arsenal than at least the next six military powers combined. (Europe as a whole spends barely a third of what the U.S. spends on armaments.)⁸⁰ It is a cliché that with great power comes great responsibility, but it is nonetheless true. If the United States tends, as it has in its recent past, to see the world's problems as military ones, the danger of a collapse of globalization as happened in 1914 is more likely than ever.

It is possible to see an international crisis, like that of July 1914, unhinging international political stability and with it economic globalization as well. The wars in the Balkans in the 1990s might easily have drawn in Russia or Middle Eastern countries. Another act of terrorism such as September 11 might lead the US to over-react, and provoke a much larger conflict. An expansion of the war in Iraq, war between India and Pakistan, any war involving Iran, or a conflict around the borders of China-- any of these could result in shockwaves across the world, especially if the leading economic and military power of the world does not commit itself to peaceful solutions. This would be a double tragedy because the problems we face in the world are soluble with vigorous international leadership and a commitment to cooperation.

China's continued integration into the world economy is one of the most important tasks for the United States and the rest of the developed world. The real breakthrough for globalization today by comparison with globalization in the nineteenth century, let us remember, is that other areas in the world have begun generating their own manufacturing and international trade. By letting China export into the US, we have let this huge country begin to pull itself out of poverty. A stable, prosperous China can help anchor all of Asia, and help solidify a more balanced economically developed world. The next frontier for economic development is the whole world region from Central Asia into the Mideast and Africa. Globalization has largely passed this region by, except for acquainting its peoples with some of the worst aspects of American culture, and few of its economic benefits. As long as this vast region remains poor and war-torn, the fate of globalization in the world as a whole remains a question mark.

Globalization, too, depends on international financial stability. Here, too, the role of the United States is potentially destabilizing. The United States runs a persistent trade deficit. The world's largest economic power actually has a weak financial base. The United States needs about a billion dollars a day from foreign investors just to finance its own economy. About 15 percent of the stock, too, in the US is held by non-US citizens. It is vital that financial crises such as those that hit Mexico, Russia, East Asia, and Argentina do not undermine world financial stability. It is not just that the US has invested money in these places. Financial crises have the

⁸⁰Chalmers Johnson, "The Continuation of the Cold War and the Advent of American Militarism," Japan Policy Research Institute, Occasional Paper No. 24, April, 2002.

potential --to use a term from the war on terrorism-- to “blow back” and hurt the United States and Western Europe directly. We should remember that one of the strengths of globalization before 1914 was its financial stability. We do not have as stable a situation today, but we need a stable international financial system more than ever. It requires constant vigilance not to become unhinged.

Encouraging continued progress on freedom of trade is also critical. Trade barriers are like weeds. They will always be there. But if you stop fighting them, they just get worse. Protectionism is one of the underlying threats to international economic growth. The seizing of foreigners’ property, quotas, and tariffs during and after the First World War choked off any chance for global economic growth to revive. A closely related big question for the world is freedom of movement. The late nineteenth century saw a freer world in terms of migration than we have ever had since, and that alone made for a more globalized world. Today, as then, migration not only lowers unemployment in the sending country, it creates economic development—in the country that sends the migrants, not just in the receiving country. Even with the limited freedom of movement we have today, remittances—the money immigrants send back to their home countries—is the second biggest item in international trade, second, in fact, to oil.

The past, then, offers us both hope and sobering lessons. Globalization before 1914 is a model for us today in its relative freedom and financial stability, but not in its militarism and its reliance on informal mechanisms of international organization. Economic growth does not happen on its own. States play an enormous role in laying the foundations of economic growth at the international level. And it is the international level of trade and finance that is usually critical for economic growth as a whole. Without that added stimulus, the world’s economies grow more slowly and are much vulnerable to political and social crises. At same time, assuming the leadership for international economic cooperation also means taking responsibility for ensuring at least a minimum of social welfare and for maintaining peace as much as can be done in an unstable world. Without a sense of hope for a better economic future and a trust that militarism is not a wise policy, peoples, as Europe’s history should teach us, can easily turn to the paths of conquest, isolation, dictatorship, or terrorism. We have made significant innovations in our day in spreading economic growth and creating a new world of international cooperation and organizations, but the challenges we face of harnessing military power and cushioning the shocks of rapid economic and cultural change are equally unprecedented. Let us hope we learn what we can from history, and prepare ourselves for the surprises ahead.