Lessons of History

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There are two reasons for taking history seriously at a meeting devoted to the elaboration of scenarios of the future. First, in a similar way to that in which a multiplicity of future scenarios can be mapped out, there is also a multiplicity of scenarios about the past. The stories that resonate most in explaining the present and shaping the future are those that draw on deep historical roots. Thus in current perceptions or misperceptions of the position of the United States, hostile critics like to draw on very old images: Europeans sometimes see their relationship to the United states as Greeks faced by the power of Rome; radical Moslems contemptuously term Americans as "crusaders".

Secondly, a long run view of history reminds us of the presence of changes, ruptures and discontinuities. It should warn us against simply extrapolating from a brief period of a few years, and projecting the future as simply a continuation of the immediately lived and experiences past.

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The longer term – historical – framework may often be uncomfortable.

However bad security relations are between what can now really be called the opposed sides of the Atlantic, or whatever spats there are across the Pacific on the value of the renminbi and the yen, there is a frequent hope that the strength and complexity of the economic inter-relationship (a product of globalization) is so great as to offer a counterweight to the political tensions. Indeed the reason that both sides can afford to be rhetorically carried away is a function of the sense of interdependence, and that a really bad outcome is not possible. We feel very secure about this – maybe we feel too secure.

One of the comfort blankets that modern people clutch is the idea that there was only ever one big simultaneous world depression, produced by such an odd confluence of causes as to be quite unique: the legacy of the First World War and of the financial settlement of reparations and war debt; the chaotic banking system of the largest economy of the world, the United States; and inexperience in handling monetary policy in a world that was still pining for metallic money. Since these circumstances were so unique, they can't occur again. Historians should say that this reasoning may be quite wrong.

A great deal of the historically informed literature on globalization makes the point that there were several previous eras of increased worldwide integration that came to a halt, and were reversed, with painful consequences. The most familiar precedent for modern globalization is that of the late nineteenth and early twentieth century, that ended definitively with the interwar Great Depression. But there were also earlier epochs of integration: the Roman empire, the economic rebound of the late fifteenth and early sixteenth centuries (the economic backdrop to the Renaissance), or the eighteenth century, in which improved technology and increased ease of communications opened the way to global empires (for Britain and France).

All of these previous globalization episodes ended, almost always with wars. Bad policies can obviously wreck individual economies in a whole range of different ways; but systemic collapse is a product of militarized conflict. Globalization as an economic phenomenon depends on the movement across state boundaries of goods, labor and capital. Security concerns produce heightened worries about all these kinds of mobility. Trade may create a dependence on imports that leads to strategic vulnerability, and one of the oldest arguments for agricultural protection was the need for autarkic self-sufficiency in case of attack. Labor flows may camouflage the movement of spies or saboteurs. Thus, for instance, First World War Britain was gripped by panic about the numbers of Germans employed in London restaurants. Finally, capital controls have often been justified on grounds of national security. One way of destabilizing politics was to try to promote financial panic, and restrictions on capital mobility might be a way of generating increased immunity to speculative attack.

Is this the recurrent collapse of globalization and the phenomenon of war an accidental or coincidental linkage?

There are two major ways in which war undermines globalization. The first, most obvious (and the one that has been most studied), is simply the consequence of the cost of war considered in a broad sense: the problem of financing unproductive military activity, the disruption of commerce, the suspension of migration and the freezing of capital movements because of security priorities. The second is the way in which armed conflict, even when its scope is quite small, provokes the emergence of new issues that produce international disaccord that affects other areas of international interaction. In this way, war challenges assumptions about the global distribution of economic and political power.

The idea that war is costly and disrupts "normal commerce" is well understood in the classic literature of economics. Indeed, for those who experienced the wars of the American and French revolutions, how could it be otherwise? Adam Smith's first volume of the Wealth of Nations (1776) closes at the end of Book III with the reflection that "the ordinary revolutions of war and government easily dry up the sources of that wealth which arises from commerce alone."

Most periods of modern conflict have been accompanied by inflationary war finance, and followed by sharp periods of deflation. The most obvious mechanism that made for postwar deflation is the effect of increased government expenditure on interest rates. An alternative way of thinking about this is as the destruction or wearing out of capital in wartime, and a consequently higher price of new capital. The rise in real long-term interest rates makes peacetime investment more expensive and depresses activity. This effect is enhanced if governments try to return to pre-war exchange rate systems with prices and wages that have been boosted and distorted by the high levels of wartime demand.

Almost all of the most dramatic historical episodes of sustained deflation followed in the aftermath of war. A sustained economic depression followed the American war of independence, and accentuated the initial anti-commercial bias of the politics of the new Republic. After the Congress of Vienna (1814-15) ended the Napoleonic wars, Europe had decades of deflation, in which industrial investment was costly and the bankruptcy of entrepreneurs frequent. The aftermath of the 1860s civil wars (or wars of unification) in Italy, Germany and the United States all included an immediate speculative bubble, and then the bursting of the bubble (after 1873), with stock market price collapses, bankruptcies and reduced investment. The First World War was also followed by a brief reconstruction boom in 1919, and then by a collapse in the major western economies in 1920-1; one decade later came the Great Depression.

Some of these classic effects in which war produces monetary instability are still very visible in the aftermath of the major international conflicts of the post-1945 era. Korea and Vietnam both produced inflationary surges, which initially reduced and then increased real interest rates, and which corresponded to investment surges and declines. The 1991 Gulf War no longer fits this pattern: both inflation and interest rates fell. It was followed by a brief recession, which is generally held by political analysts to have frustrated the reelection of President George H.W. Bush in the 1992 election.

One explanation of the changing effects of war in very recent times is obvious: the cost of each war for the major superpower has been falling since the middle of the twentieth century. In 2002 dollars, the Second World War cost the United States $4,700 bn., Korea $400 bn., Vietnam $572 bn., the 1991 Gulf War $80 bn., and the actual fighting in the Iraq war of 2003 cost little over $20 bn. It would consequently be appropriate to expect a diminution of the purely fiscal impact of wars, and consequently of their deflationary legacy.

If we just take a naïve approach to the demand and supply for military action, falling costs should suggest increased demand and a new likelihood of the use of force to effect regime change. The less a war costs, and the fewer the casualties, both military and civilian, the more likely it becomes.

Adam Smith made a similar point about some of the wars of the eighteenth century. The combination of technology, which made war between advanced and backward countries less costly for the advanced country, and new methods of spreading the financial burden of war through the sale of debt instruments, was making war more likely. “In great empires the people who live in the capital, and in the provinces remote from the scene of action, feel, many of them, scarce any inconveniency from the war; but enjoy, at their ease, the amusement of reading in the newspapers the exploits of their own fleets and armies.”

The same conclusion can be reached by a less cynical route. During the Cold War and the period of superpower tensions, wars were held in check by a widespread realization that the cost of their escalation would be too high. But since the end of the Cold War, there has been a proliferation of international as well as of threatening domestic conflicts as states break up.

Some commentators have jumped already to the conclusion that it is wrong simply to think about the cost of military conflict, and that in particular the growing expense and political embarrassment of post-conflict Iraq precludes another such conflict. This reasoning is fallacious, because similar situations are highly likely to recur. We are internationally sensitive to human rights issues; and also to the potential of bad governments to destabilize whole regions. Both concerns are realistic, and I would add creditable. They will necessarily lead to military engagements in sometimes expected and sometimes unexpected places. Moreover, it is possible to envisage more attention being paid in advance to the management of post-conflict situations in a manner which in the Iraq case was made impossible by the rush of events.

Wars also lead to questions about the rules that are essential in guiding economic interaction, both internationally and also domestically. All wars, big or small, produce new problems and divisions. There has been a spillover from security concerns to economics. The most obvious type arises out of the financial legacies of wars and debates about reparations and war debts. Such debates poisoned the international economy in the 1920s (as Keynes predicted in *The Economic Consequences of the Peace*). They are currently recurring in the fierce debate about whether and how and what kind of pre-war Saddam debt should be forgiven in order to help Iraq in reconstruction.

One tradition of thinking about wars (and especially of the smaller scale wars of the classical late nineteenth century era of globalization) suggests that they have economic origins, and that they are fought – especially in eras of globalization – because of a wish to control a greater share of global resources. This is familiar to historians and social scientists as the Hobson-Hilferding-Lenin interpretation of imperialism. It is largely wrong as an explanation of the origins of the wars, but very powerful in understanding the political response to them.

This paradox arises because of other effects of eras of globalization. New opportunities to create new wealth mean radical changes in distributions. Large and apparently illegitimate increases in fortune provoke resentments and a populist reaction. There are clear historical precedents to the current worldwide wave of reaction against and rejection of what is now perceived as U.S. style capitalism.

The model of the imperialist war that the British liberal Hobson, and the Marxists who adapted his explanation, had in mind was the relatively short, non-total, war that characterized the era of high globalization. The Spanish-American war (1898) brought the United States into the international system. It was, unlike the sustained conflicts earlier in the nineteenth century, a very unequal conflict between the world’s fastest growing and largest industrial economy, and a very backward European imperial power. 274,000 U.S. soldiers were deployed, but only 379 killed. It was soon followed by another unequal conflict, the British conquest of the Boers.

Both these unequal wars were acutely controversial in domestic politics and could be interpreted as "land grabs", demands for resources that were scarce: sugar from the Caribbean, and diamonds (from the Kimberley field) and gold in southern Africa. At first the wars produced electorally successful nationalism, with the 1900 British "khaki election" producing a large Conservative and imperialist vote, and a surge of popularity for Roosevelt, who had been the hero of the 1898 war. Then there was a backlash, in which critics pointed out associations between war and personal gains of a small group of corrupt businessmen and financiers.

In Britain, Leo Chiozza Money denounced the corruption of finance. The Liberals made much of the hypocrisy of the British government's denunciation of the racial discrimination of the Boers while encouraging a massive Chinese immigration to provide labor for the development of southern Africa. They won a stunning electoral victory in 1906. The mood turned against the financiers who had bought the election of President McKinley in 1896. Roosevelt himself began to denounce "certain malefactors of great wealth" who had appropriated many of the gains produced by public action. Populists presented war and corporate scandal as going hand in hand.

These wars also made international relations significantly more tense. The Boer War was one of the quite decisive moments in the growing breach between Britain and Germany, with the German Kaiser publicly supporting the Boers. The small conflicts thus set the stage for bigger and more global clashes, in which arguments over the distribution of spoils worsen the international climate.

The capacity of relatively small conflicts to destroy large elements of international agreement obviously looks familiar in 2003. But the danger of escalating conflict disrupting globalization has historical precedents that go back much further than the world of late nineteenth century globalization.

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The first volume of Edward Gibbon's classic study of <u>The Decline and Fall of the Roman Empire</u> was (by chance) published in 1776, the year of the signing of the American declaration of independence, and of Adam Smith's <u>Wealth of Nations</u>. Gibbon's advice and Smith's concern about war destroying commerce looks immediately relevant today, and quite alarming. Both Smith and Gibbon were thinking, in the wake of the humiliation of a global British commercial and military system, about the problems of what might be termed a reverse of globalization.

Gibbon begins with praise for the peaceful character of the Emperor Augustus, and of Roman realism and multilateralism: “Inclined to peace by his temper and situation, it was easy for him to discover that Rome, in her present exalted situation, had much less to hope than to fear from the chance of arms; and that, in the prosecution of remote wars, the undertaking became every day more difficult, the event more doubtful, the possession more precarious, and less beneficial.” This is a fine description of the attractions and perils of economic prosperity. However much the Emperor Augustus realized the pointlessness of distant wars, he actually did not have much choice. The wars were created out of the instability that inevitably swirls around success, or at least around successful imperial systems. Rome might have basked in consumer prosperity, but was sucked into a world of conflict.