

The collapse of the old order: Consequences of the First World War

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HISTORICAL PERSPECTIVES ON ECONOMIC GROWTH

Questions of this lecture

- ▶ What ended the First Wave of Globalization?
- ▶ What is the role of the First World War on the political economy of European nations?
- ▶ What are economic lessons of the decline after World War I?

Sleepwalking into War

- ▶ Degree of international trade in 1913 was unprecedented
- ▶ There was a high degree of market integration
- ▶ This is why [Clark \(2012\)](#) argues Europe 'sleepwalked' into the war
 - ▶ The houses of the central European monarchs were all related, and there was no 'unavoidable' war
 - ▶ Elites assumed a short war, like any of the wars before
 - ▶ The constellation was not clear until 1914. Germans expected England to either stay out
 - ▶ The entry of the US was unexpected (large German minority)

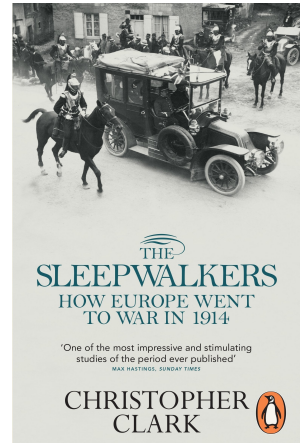


Table 1: Size of European powers in 1913. All monetary figures in billion 1990 GK\$¹

Country	GDP	Pop (m)	Pop - colonies (m)	GDP colonies as % of metro	Est imperial GDP
Britain	229.6	45.7	394.4	146	565
Netherlands	22	6.2	49.9	181	62
Belgium	32.4	7.6	11	20	39
France	129	39.8	47.6	23	159
Italy	96.4	35.4	1.9	1	97
Spain	41.6	20.2	0.9	1	42
Russia	265.1	170.9	—	—	265
Germany	280	67	12.5	3	288
US	517.4	97.6	10	2	528

¹Taken from Carreras and Josephson (2010)

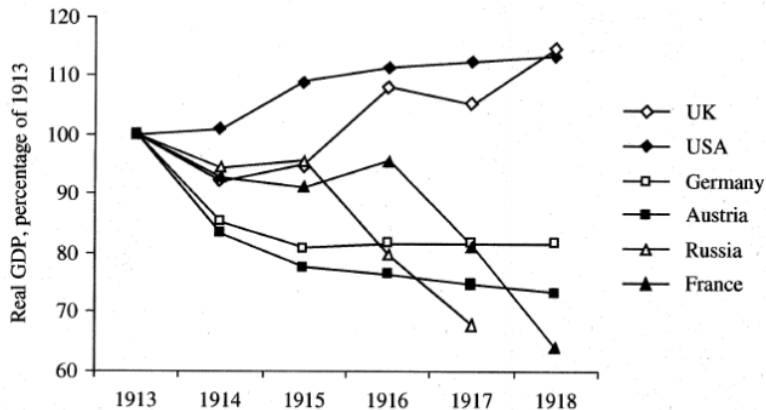
Figure 1: Mobilization of resources¹Table 1.5. *The share of government spending in national income: 1913–1918, by country (percentage of GDP at current prices)*

	Australia	Canada	France	Germany	UK	USA
1913	5.5	7.0	10.0	9.8	8.1	1.8
1914	5.7	10.0	22.3	23.9	12.7	1.9
1915	9.6	13.1	46.4	43.8	33.3	1.9
1916	14.0	16.5	47.2	50.3	37.1	1.5
1917	17.2	15.7	49.9	59.0	37.1	3.2
1918	17.2	16.9	53.5	50.1	35.1	16.6

Sources: Obstfeld and Taylor (2003); Mitchell (2003a, 2003b); UK from Feinstein (1972: tables 2 and 3); Germany from Sommariva and Tullio (1987); and France from table 3.8. Thanks to Jari Eloranta for help with these figures.

¹Taken from Broadberry and Harrison (2009)

Figure 2: Changes in GDP levels of major combatants¹



¹Taken from Broadberry and Harrison (2009)

Consequences of World War I: During the War

- ▶ The first wave of globalization ([Findlay and O'Rourke, 2009](#)) found an abrupt end, market integration decreased dramatically
- ▶ The Gold Standard was temporarily (so they thought) put on halt
- ▶ New ideas of commanding an economy (war time rationing). Lenin (1917) considered this as “a complete material preparation for socialism”
- ▶ Strong government involvement in core industries, such as heavy industry

Figure 3: Deaths in World War I in major European states¹

	Deaths (1000s)	Population (millions)	Deaths as % of population
Great Britain	715	46.1	1.6
British Empire	198	342.2	0.1
France	1,327	39.6	3.4
French colonies	71	52.7	0.1
Russia	1,811	167.0	1.1
Italy	578	35.9	1.6
USA	114	98.8	0.1
Belgium	38	7.6	0.5
Serbia-Montenegro	278	4.9	5.7
Rumania	250	7.6	3.3
Greece	26	4.9	0.5
Portugal	7	6.1	0.1
<i>Total Allies</i>	<i>5,413</i>	<i>813.4</i>	<i>0.7</i>
Germany	2,037	67.8	3.0
Austria-Hungary	1,100	58.6	1.9
Turkey	804	21.7	3.7
Bulgaria	88	4.7	1.9
<i>Total Central Powers</i>	<i>4,029</i>	<i>152.8</i>	<i>2.6</i>
<i>Total</i>	<i>9,442</i>	<i>966.2</i>	<i>1.0</i>

Note: Battle deaths include those who were killed in battle, died from wounds, and died from poison gas. Non-battle deaths include those who died from disease, died in captivity, and died from accidents and other causes.

¹Taken from Broadberry and Harrison (2009), data from Uralanis (1971, p. 209)

Table 2: Destruction of human and physical capital in % of prewar assets¹

Physical capital	Human capital	Domestic assets	Overseas assets	Reparations bill	National wealth
<i>Allies</i>					
Britain	3.6	9.9	23.9		14.9
France	7.2	59.6	49		54.7
Russia	2.3	14.3			
Italy	3.8	15.9			
United States	0.3				
<i>Central Powers</i>					
Germany	6.3	3.1	51.6		54.7
Austria-Hungary	4.5	6.5			
Turkey and Bulgaria	6.8				

¹Taken from Broadberry and Harrison (2009)

Consequences of World War I: During the War

- ▶ New states emerged as indirect (Ireland) and indirect (Czech-Slovakia, Poland, Austria, Hungary) consequence
- ▶ Huge war debts for all fighting European parties

Table 3: War debts and reparations of Germany, UK, and France¹

	Germany		UK		France	
	bil. GoldM	% of GDP	bil. \$	% of GDP	bil. GoldF	% of GDP
Debt in 1913	32.8	63	711	33	33637	67
Debt in 1920	25.2	48	3160	144	66953	135
A-Reparations	10	19				
B-Reparations	42	80				
C-Reparations	80	152				
Sum	157.2	299				

¹Taken from (Ritschl, 2013)

World War I and Suffrage

- ▶ The need to mobilize all labor increased its relative position against capital
- ▶ The need to increase labor market participation of women also increased their political participation
- ▶ Introduction of universal suffrage in Ireland 1918, Austria 1918, Germany 1918, Czechoslovakia 1918, Hungary 1918, Poland 1919, Netherlands 1919, USA 1920, UK 1928



Government Debt and Economic Policy

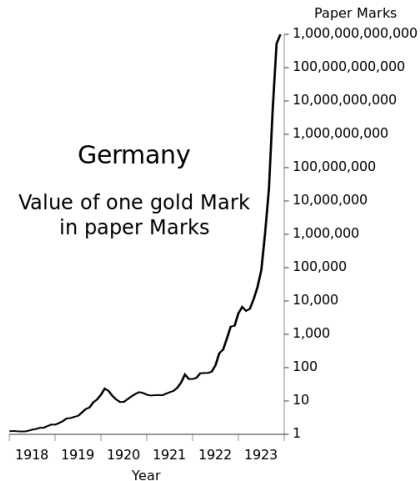
- ▶ There were three options states had faced with their government debt
 - ▶ Raise taxes
 - ▶ Borrow
 - ▶ Print money (Inflation)
 - ▶ Default to foreign debt: Hard consequences (France occupying Rhineland 1923)
- ▶ A combination of many: German hyperinflation of 1923



Germany: Consequences of the Hyperinflation

- ▶ Short term consequences
 - ▶ Savings was largely eroded while some forms of capital profited
 - ▶ This undermined trust in political system and democracy in general and helped extreme parties
 - ▶ Hitler/Roehm coup in Munich 1923
- ▶ Long term consequences
 - ▶ While France could not let go of reparations (to pay back to US), some British politicians and economists (Keynes) found German claims in part legitimate
 - ▶ This helped the Nazi party, also as Lord Halifax and others misunderstood Hitler's aims during appeasement politics
 - ▶ German fear of inflation, even though Great Depression was more severe and caused by deflation. "A money print works like this: You put paper in, and out comes Hitler."

Figure 4: German hyperinflation 1923



Were Reparations too high?

There is a debate about this. But in a nutshell

- ▶ Germany borrowed the reparations from US and would have been able to pay back
- ▶ Reparations were however a big question in the German public debate, so it ended up by Hitler's default
- ▶ They put a high debt on the new democratic government
- ▶ They also created a division between France and England

A Coordination Failure?

- ▶ The new world order proposed by Wilson failed to materialize
- ▶ Instead, the US pulled out of Europe and behaved relatively isolationist
- ▶ France and Britain also failed to coordinate
- ▶ The German democracy was young and unable to guarantee economic success
- ▶ 1923 is a prelude to the Great Depression in terms of coordination failure
- ▶ This linked WWI and WWII together, "The Thirty Years War of the 20th century"

Conclusion

- ▶ World War I was decided by economics (or at least the failure of Central powers to bring in non-economics factors in time)
- ▶ The war had enormous consequences on world order
- ▶ Market integration would not reach 1913 levels until after WWII
- ▶ New states emerged, and power within states was distributed differently
- ▶ The postwar international framework was not very stable
- ▶ This created a link between WWI and WWII, as Great Depression

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