

Reflections on the causes and consequences of the lack of international cooperation during the interwar period. Lessons from the past?

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ABSTRACT. Insufficient international cooperation is usually believed to have disturbed the evolution of the world economy during the interwar period and helped to transform the Roaring Twenties into the Great Depression. The main sections of this paper are devoted to a discussion of the interrelationship between international cooperation, war debts and reparations, international conflicts and political regimes during the interwar period, seeking to develop some hypotheses as to why international cooperation displayed such an irregular performance in that period. Such an evolution should provide us with some warnings about the various dangers that the world in general, and Europe in particular, face today. These are discussed in the conclusion to this paper.

Introduction

THE TRADITIONAL NARRATIVE about the evolution of the world during the interwar period goes like this: immediately after the war, there was a sudden surge of new democratic regimes being created, and an improvement in the framework of international cooperation with the creation of the League of Nations; however, the world economy emerged from the war overburdened by war debts and reparations; the international cooperation needed to overcome the problems caused by this burden did not work very well during the early and mid-1920s and its performance tended to deteriorate even further during the late 1920s and the 1930s; this led to economic instability during the first half of the 1920s, followed by a precarious economic prosperity during the second half of the 1920s,

and the Great Depression during the 1930s; the Great Depression led to the fall of several democratic regimes and an increase in international conflict, resulting in the outbreak of the Second World War.

This story is essentially correct, although it needs a few qualifications. Sections 1 and 2 discuss the links between the various aspects of the evolution just summarised and provide some necessary qualifications, focusing on the international financial system, the political regimes and international conflicts, respectively. Section 3 seeks to develop some hypotheses as to why international cooperation displayed such an irregular performance during that period. The ultimate aim is to draw some lessons for the present, especially for the European Union. These lessons are discussed in the conclusion.

1. The international financial system

The discussion of the financial history of the 1920s is usually dominated by the topic of war debts and reparations. This is quite reasonable, but it should not exclude from our consideration the international financial system, which already existed on the eve of the First World War and continued to exist during the interwar period.¹

On the eve of the First World War, outstanding international investment claims stood at the nominal amount of roughly 44 billion dollars.² This figure was the result of a very significant growth during the last decades of the 19th century and the early 20th century: in around 1870, the figure had barely exceeded 6 billion dollars. Nearly 40 billion dollars of these assets were owned by European economic agents, with Britain (18 billion dollars), France (9 billion dollars) and Germany (6 billion dollars) naturally being among the leading countries, and with Belgium, the Netherlands and Switzerland presenting very significant figures,

1. The discussion that follows owes much to three classical works on the First World War and the inter-war period: Hardach, 1987, Aldcroft, 1987, and Kindleberger, 1987.
2. This figure and the data presented in the discussion that follows were taken from United Nations, 1949, Maddison, 2001, and Jones, 2005.

with more than 1.5 billion dollars each. The only other creditor exceeding 1 billion dollars was the United States of America (3.5 billion dollars), although, with liabilities reaching nearly 7 billion dollars, the USA still counted as a net debtor.

The growth of international investment before the First World War had gone hand in hand with the growth of the international economy in all its aspects: on the eve of the war, world per capita gross domestic product was rising at faster than 1 per cent per year, international trade had reached around 8 per cent of the world's gross domestic product, and over 1 million people changed their country and often their continent of residence each year. Such a growth in the international economy was mainly a consequence of technological innovation, which had stimulated the increase in productivity, especially in the field of transport and communications. International investment fed back into the growth of the international economy, especially because it tended to favour the development of export activities in those countries where the investments were made; and the institutional framework provided by low tariffs, the gold-standard international monetary system and international cooperation also played a crucial role in fostering such developments.

Three other notable aspects of the international financial system before the First World War should also be mentioned here. Firstly, the rough equilibrium between capital exports and aggregate income from investments at around 5 per cent of outstanding international investment, which amounted to a delicate stabilising feature of the system. Secondly, the peculiar (and potentially dangerous) time frame of the balance sheet of the financial intermediaries operating in the world's main financial market, London. London's financial intermediaries held assets that comfortably covered liabilities, but long-term assets clearly exceeded short-term assets, while short-term liabilities clearly exceeded long-term liabilities; as a consequence, short-term assets did not cover short-term liabilities. Thirdly, the central role played by London as a financial market was no longer matched by the national economy of Great Britain occu-

pying a leading place in the world economy. The United States of America had already overtaken Great Britain in both size (measured by total gross domestic product) and degree of development (measured by per capita gross domestic product). This provided the basis for the potential challenge launched by the main American financial centre, New York, to take over the leading position in the world from London.³

The First World War significantly reduced the amount of outstanding international investment claims, either through their voluntary settlement (a total of around 5 billion dollars – chiefly paid by British agents, who contributed around 4 billion dollars), or as a result of their collapse or confiscation (around 10 billion dollars, chiefly harming French and German agents). It also added some 16 billion dollars of war debts among allied governments to outstanding international debts – the creditors being the USA (around 7 billion dollars), Great Britain (around 7 billion dollars), France (around 2.2 billion dollars) and others (negligible amounts); the debtors being Great Britain (around 3.7 billion dollars), France (around 3.7 billion dollars), Russia (around 3.6 billion dollars), Italy (around 3 billion dollars) and others (around 2.4 billion dollars). Besides their sheer size (amounting to approximately half of outstanding international investment claims at the end of the war), these war debts had much shorter payment periods than traditional international investments (which usually tended to be virtually permanent) and presented two quite new features. Firstly, they involved governments as significant creditors (previously governments had been almost completely absent from the international financial system as lenders). Secondly, they involved the governments of some of the main national economies as debtors (previously only governments from peripheral national economies had played a significant role as borrowers). Moreover, they inverted the relative positions of the main core countries in the international financial system, with the United States of America emerging as a net creditor, Great Britain and France as weaker creditors

3. On the rivalry between international financial centres, see Cassis, 2006.

(the French government as a net debtor), and the other European continental powers as net debtors. The European victors in the war attempted to offset this evolution by demanding war reparations from defeated governments. 132 billion pre-war gold marks (equivalent to approximately 31.6 billion dollars) were demanded from Germany and much smaller sums from other defeated countries. Once more, besides their sheer size (approximately equal to outstanding international investment at the end of the war), these war reparations had also rather short payment periods and confirmed the new features of the international financial system pointed out above (making Germany, in particular, a huge net debtor).

However, the true burden of war debts and reparations was not, strictly speaking, one of a financial nature. The real problem was partly economic: to be able to settle their payments, debtor countries had to record surpluses in the remaining items of their overall balance of payments, mainly in their trade balance, which meant corresponding negative trade balances being recorded in the creditor countries, and ultimately in the final beneficiary of the flow of payments, the United States of America. But the problem was also partly political: no creditor country, and perhaps most of all the traditionally protectionist and productively dynamic America, was prepared to tolerate the depressive effect of a significant negative trade balance in its economic activity. Delicate mechanisms were no longer able to provide balancing solutions, and, in the absence of any adequate international cooperation, rather harsh methods were introduced. The immediate options for debtor countries were either to repudiate debt – a course of action followed by Russia, which mainly hurt Great Britain (around 2.4 billion dollars) and France (almost 1 billion dollars), by further reducing their net creditor positions, and implied partial isolation from the international economy – or to increase competitiveness by devaluing the external currency (either deliberately or resulting from the effects of automatic market forces on the exchange markets) – a course of action followed by several countries in varying

degrees, roughly corresponding to the relative weight of their debtor position, the largest of these being Germany, France and Italy. Of course, external currency devaluation inevitably brought with it internal currency devaluation, that is to say inflation; and inflation plagued almost the whole of Continental Europe for a while, albeit with different levels of intensity. At the same time, almost everybody, both debtors and creditors alike, raised tariffs in order to protect their domestic economic activity from the competition of artificially cheaper imports.

After some time, a monetary and financial stabilisation process was designed and implemented to counteract the disturbances caused by exchange-rate and price instability. In 1922, the Genoa Conference devised the gold-exchange-standard international monetary system to enable the return to fixed (although mostly revised) exchange rates and currency convertibility (although full direct convertibility into gold was only restored in the USA, and limited direct convertibility into gold was only restored in Great Britain and France; in other countries only indirect convertibility into directly convertible currencies was restored); and, in 1924, the Dawes Plan devised a scheme to launch the triangular financial flows (American financial institutions lending to the German government; the German government paying reparations to the governments of the European victors; the governments of the European victors paying their debts among themselves and ultimately to the American government) needed to keep war debts and reparations payments working. However, the gold-exchange-standard international monetary system was only slowly implemented; the Dawes Plan did not allow Germany to settle its debts, but just to shift them from reparations owed to the governments of the European victors to liabilities towards American financial institutions; and, above all, the lowering, or at least the consolidation, of tariffs (required in order to reintroduce some stability into the international trade field) failed to materialise.

These financial upheavals went hand in hand with a reduced dynamism of the international economy. Such a situation was partly inevitable. The

fall in migrations as a result of the increased population densities in previously sparsely populated overseas countries was perhaps the main cause of this. But the slowdown in the growth of international economic relations during the interwar period cannot be attributed to any deficiency in technological improvements, especially in the transport field, as is proved by the development of the automobile and aviation sectors. Institutional factors were certainly decisive in shaping the negative evolution; and war debts and reparations played an important role in bringing this about, especially by indirectly triggering the evolution towards higher tariffs. As it was, the rate of growth of the world's gross domestic product fell to well below 1 per cent per year, and exports dropped to around 5 per cent of the world's gross domestic product. The performance improved during the second half of the 1920s, and even private international capital movements seemed for a while to regain the dynamism of the eve of the First World War. However, one particularly dangerous feature crept in. Whereas before the First World War "short-term investments were normally confined to revolving mercantile and similar credits and to changes in banking deposits held in creditor countries by debtor countries" (United Nations, 1949: 2), "the heavy and frequently unpredictable movement of vagrant short-term capital is a feature of the inter-war period." (United Nations, 1949: 2). This was partly the result of exchange rate instability, and partly the result of the efforts made by New York financial institutions to attract former London customers as part of the competition for the leading place in the world financial system.

There then followed the collapse of production growth in 1929 and the collapse of the international monetary and financial system in 1931. Meanwhile, an attempt to salvage the payments flows related to the war debts and reparations (the Young Plan, agreed upon in 1929, on the eve of the collapse of production growth) produced the first international banking organisation, the Bank of International Settlements (created in 1930). Although this would prove to be a very useful meeting place for the main American financial institutions and European central banks, its

activity was to little or no avail in the short run. Both the gold-exchange-standard international monetary system and the payments flows related to the war debts and reparations disappeared in the early 1930s. The crucial moments were, of course: the abrupt fall in the New York Stock Exchange prices on the so-called 'Black Thursday' (24 October 1929); the bankruptcy of the Österreichische Credit-Anstalt (11 May 1931); the proposal made by the American President Herbert Hoover (20 June 1931) and the general acceptance (July 1931) of a one-year moratorium on war debts and reparations payments; the declaration of the gold inconvertibility of the pound sterling (21 September 1931); the proposal by the Lausanne Conference (June-July 1932) of a *sine die* suspension of war debts and reparations payments, which was rejected by the USA, but implemented by European countries (something the American government and American financial institutions were unable to prevent); the declaration of the gold inconvertibility of the American dollar (5 April 1933); the repudiation for all practical purposes of the Treaty of Versailles by Germany (1933); and (as a kind of postscript) the declaration of the gold inconvertibility of the French franc (25 September 1936).

During the remaining pre-Second World War years, Germany and Italy became more and more aloof from the efforts of international monetary and financial cooperation, and the joint attempts of the American, British and French governments and central banks to ensure monetary and financial stability did not show any significant levels of efficiency or persistence. The result was the division of the international economy into economic blocs based on the exchange alignment and trade preferences among groups of countries linked to the anchors provided by the main economic powers: the American or dollar bloc, including most of the American continent; the British or sterling bloc, including the British Empire and Commonwealth and several European and Asian countries closely linked to the British economy; the French or franc bloc, and the German or mark bloc, dividing most of continental Europe; and the rather isolated Soviet Union.

In spite of this evolution, on the eve of the Second World War the figure for outstanding international investment claims was roughly the same as on the eve of the First World War (44 billion dollars). However, the contrast between the quarter of a century that preceded the First World War (the so-called '*belle époque*'), during which outstanding international investment claims more than trebled, and the quarter century between the two world wars, during which outstanding international investment witnessed an overall stagnation, is quite striking.

To sum up: according to the line of thought developed here, one of the main causes of the Great Depression was the inability to find a way to compensate the recessive effects of war debts and reparations on economic activity, which mainly involved the mechanisms of increased obstacles to international trade and the increased viscosity of financial flows. Other perspectives should, of course, be considered. Economic policies came under scrutiny – and blame – from the first moment, sometimes rightly so, and sometimes in a not very sound way. Joseph Schumpeter's consideration of the whole array of capitalist business cycles with different periods and amplitudes, together with the medium-term consequences of war, was perhaps the most profound view, being presented already during the 1930s.⁴ Half a century later, Charles Feinstein, Peter Temin and Gianni Toniolo developed an interesting comparison with the post-Second World War evolution, which emphasised the lack of leadership, the absence of international cooperation, and old-fashioned political and financial ideologies as the key points for understanding the clearly worse performance of the inter-war period, faced with problems of structural imbalances similar (and perhaps even lighter) than those of the post-Second World War years.⁵ Anyway, the insufficient level of international cooperation always ends up playing an important role, albeit with different degrees of emphasis, in these explanations. Is it possible that such an insufficiency was primarily a political, and not an economic, problem?

4. See Schumpeter, 1939, especially chapters XIV and XV.

5. See Feinstein, Temin, Toniolo, 1997.

2. Political regimes and international conflicts

According to the standard view, the immediate post-First World War years witnessed a sudden surge of new democratic regimes being created and an improvement in the framework for international cooperation, because of the formation of the League of Nations. However, both developments proved to be short-lived: during the 1930s, many democratic regimes collapsed and the League of Nations was completely unable to prevent the proliferation of conflicts, which would eventually lead to the Second World War. Once more, this narrative is essentially correct, but should not remove from our consideration the fragilities of international cooperation and of the democratic regimes established in the immediate post-First World War years, the undoubted successes of the League of Nations in both the political and the economic fields, and the need for deeper explanations for the failure of international cooperation during the interwar period.

The picture of an upsurge of democratic regimes in the wake of the First World War requires a number of very fundamental qualifications. The overwhelming majority of the peoples of Africa and the Pacific islands, a very significant part of the peoples of Asia, and even some of the peoples of America and the Mediterranean islands remained for the whole interwar period under more or less complete colonial rule. Most indigenous people living in what may be called European overseas societies and other independent states did not enjoy full citizenship rights. A significant number of independent states all around the world maintained clearly non-democratic regimes. And even what seemed to be fully fledged democratic regimes according to the standards of the day presented many shortcomings according to the standards of the present time: for instance, women's right to vote was the rare exception rather than the rule. However, it cannot be denied that the collapse of imperial political conglomerates, especially in Eastern Europe, provided the opportunity to create or consolidate several national independent states, and that the mandate system adopted to dispose of the Ottoman and

German possessions outside Europe (under the supervision of the League of Nations) involved some degree of consideration (albeit variable) of the interests of the peoples concerned. Moreover, there was an undoubted spread of more liberal and democratic regimes, especially in Europe.

It should be stressed in this context that the immediate post-First World War years witnessed, for the first time, the rise to power of socialist parties in several countries, mainly in Europe. Of course, at that time, just as nowadays, no socialist would accept being excluded from the democratic family, but exactly how much the implementation of the standard socialist programme of the time (nationalisation, at least of the large firms and fundamental sectors of the economy; central planning, at least of strategic aspects of the economic life; a significant redistribution of income and wealth) was compatible with a standard democratic regime might be considered an open question. In practice, the socialist movement was already split into a reformist social-democratic movement and a revolutionary communist movement. Social-democratic rule proved compatible with traditional democratic formulas; and, although social-democratic reforms always seemed to be threatened by the reversal of political fortunes, at least some of its elements proved resilient in the long run. On the contrary, communist rule proved incompatible with traditional democratic formulas; and, although seemingly unbreakable in the short-run, the communist transformation of society proved unsustainable after several decades.

For the time being, the only communist experiment to thrive was Russia, and its political and economic regime (the dictatorship of the Communist Party; partial, and later full, imperative planning of economic life) seemed for a while to be a peculiar, but stable characteristic of the most isolated great power of the world.

During the 1920s, democracy seemed to enjoy only a faltering existence in Mediterranean Europe. Italy took the lead in moving towards a right-wing party dictatorship and corporative economic regime in 1922,

soon followed by Spain (1923) and Portugal (1926). The debacle came in the 1930s, together with economic depression: from 1933 onwards, Germany followed what in reality was the Soviet model of a single party dictatorship and the full imperative planning of economic life, although their similarities were disguised by the contrast in their ideological trappings and the continuity of capitalist personnel; most countries in Continental Europe adopted more or less authoritarian right-wing regimes; and Latin America experienced a strong wave of military dictatorships. Only the United States of America, Great Britain and the British dominions, and a few European countries, such as France, Belgium, Czechoslovakia, Denmark, Finland, the Netherlands, Norway, Sweden and Switzerland remained strongholds of democracy, now clearly representing a minority in the world context.

The improvement in the framework of international cooperation seemed a necessary step in the immediate post-war years, because, from the perspective of post-war public opinion, the economic situation of the pre-war years might have seemed like a *'belle époque'*, whose restoration would be welcome, but the political situation, however positively it may have been valued at the time, could not be favourably viewed retrospectively, given the fact that it had led to the Great War. Such an improvement in the framework of international cooperation was provided by the League of Nations, of which sixty-three countries eventually became members, the only significant exception among the main powers being the United States of America.⁶

The list of political successes of the League of Nations started with the handling of several disputes that resulted from the First World War, namely the dispute between Finland and Sweden over the Åland Islands (1920-1921), the dispute between Germany and Poland over Upper Silesia (1920-1922), and the dispute between Germany and Lithuania over Memel (1923-1924). It included the resolution of a few conflicts, which

6. On the evolution of the international system during the interwar period, see Kennedy, 1987. On the League of Nations, see Marbeau, 2001.

often degenerated into open, although short wars: the settlement of the borders of Albania (1921), the conflict between Greece and Italy over Corfu (1923), the conflict between Bulgaria and Greece over Petrich (1925), the conflict between Iraq and Turkey over Mosul (1926), the conflict between Bolivia and Paraguay over the Chaco region (1932), and the conflict between Colombia and Peru over Leticia (1932-1934). Even later in the 1930s, the League successfully oversaw the transfer of sovereignty over the Saar (previously under French administration) to Germany (1935) and over Hatay (previously linked to the French mandate of Syria) to Turkey (1938-1939).

At the same time, the League of Nations became involved in the promotion of the international economic and financial cooperation needed to overcome the problems of the interwar period. The list of its economic successes included the sponsorship of the economic and financial conferences that set the framework for the new gold-exchange-standard international monetary system – the Conference of Brussels (1920) and the Conference of Genoa (1922) – and programmes for the financial stabilisation of several successor states of the Austro-Hungarian Empire and Balkan countries: Austria (1922), Hungary (1923), Greece (1924, 1927) and Bulgaria (1926, 1928).

However, one significant failure may be enough to spoil a long list of quite important successes. And the League of Nations had a few significant failures. In the political field, the crucial ones were the first war between China and Japan (1931-1933), which resulted in the separation of Manchuria from China as a formally independent state but really under Japanese protectorate, and the war between Abyssinia and Italy (1936), which resulted in the reduction of Abyssinia to colonial status under Italian rule. It became clear that, once the great-power agreement regarding the exercise of restraint had come to an end, neither diplomatic means (as attempted in both cases) nor economic sanctions (as attempted against Italy) were enough to prevent great-power aggression against weaker countries. There followed the Japanese invasion of China

(1937), and the German bullying of Central Europe, which was able to bring about a significant increase in its area and population in the late 1930s. Public opinion in the democratic great powers hesitated over risking another Great War.⁷ In the end, Japanese and German aggression started long wars, which eventually merged into what became known as the Second World War.

In the economic field, problems were heralded by the difficulty in implementing the conclusions of the Conference of Geneva (1927), which recommended tariff reduction, or, at least, consolidation, and the crucial failure came with the Conference of London (1933), which was conspicuously unable to set up a feasible programme for redressing the world economy, now plunged into the Great Depression.

It is usually accepted that economic depression was the cause of the democratic and peace debacles, and that these were connected to the decline in international cooperation. It is certainly fair to accept a causal relation running from depression to dictatorship and war, even if democracy and peace were already quite fragile before the outbreak of the Great Depression. However, a feedback connection dating back to the 1920s should not be overlooked. Mounting political tension already blocked economic and financial international cooperation; a lack of international economic and financial cooperation contributed to the worsening of political relations, both directly and indirectly via the worsening of the economic and financial situation. Moreover, it is doubtful whether the spread of democratic regimes in the immediate post-war years was favourable to international cooperation, either in the political field, as grievances from the war weighed heavily on the popular mood, or in the economic field, because domestic performance in terms of production and employment had priority over external performance in terms of exchange stability as a goal for economic policy. It is important to go deeper into these connections.

7. E. H. Carr's book *The Twenty Years' Crisis, 1919-1939*, published on the eve of the Second World War is a paradigmatic testimony of the attitude involved.

3. International cooperation

At a first level of analysis, it would seem that the main problem was that no one was prepared to sacrifice their ability to provide stimulus to the domestic economy for the sake of exchange-rate stability, currency convertibility or tariff reductions (all of which had characterized the pre-war economy and were the intended goals of the economic conferences promoted by the League of Nations). However, as a consequence, no one was able to provide consistent stimulus to the domestic economy, something that could only be achieved by coordinated action.

The most suitable model for understanding this situation would seem to be that of a game following the pattern of the so-called prisoner's dilemma.⁸ In such a game, each player has two possible strategies: cooperation or defection. Given the strategy chosen by other players, the pay-off from defection is always greater than the pay-off from cooperation for any one individual player; however, the pay-off from general cooperation is greater than the pay-off from general defection. According to the standard rules of the game, players are unable to communicate among themselves. This easily explains why cooperation is favourable to everybody, and why defection is nevertheless a likely outcome.⁹

However, reality in international relations is not as simple as a single standard playing of the game. Time elapses, which corresponds to a repeated playing of the game; and governments keep diplomatic channels open, which corresponds to communication between players (although, of course, nothing implies that governments provide each other with full,

8. On prisoner's dilemma games, see Kuhn, 2009.

9. Formally, in the pay-off matrix

Players and strategies		Other players (O)	
		Cooperation (C)	Defection (D)
Each player (E)	Cooperation (C)	(ECC, OCC)	(ECD, OCD)
	Defection (D)	(EDC, ODC)	(EDD, ODD)

It is true that $ECC > EDD$ and $OCC > ODD$, but $EDC > ECC$, $EDD > ECD$, $OCD > OCC$ and $ODD > ODC$.

or even accurate, information about their strategies and decisions). As a consequence, cooperation sometimes succeeds, and sometimes (perhaps more often) fails. The interesting point is to examine why.

Of course, one might expect that, on the one hand, feedback between the existence of cooperation and more favourable economic outcomes would encourage the maintenance of cooperation; and that, on the other hand, feedback between the absence of cooperation and unfavourable economic outcomes would promote a drive towards cooperation. In the interwar period, the first mechanism helps to explain the persistence of a virtuous strategy for most of the 1920s; the second mechanism helps to explain the shift from the brink of chaos to some cooperation in the early 1920s. However, the virtuous strategy collapsed in the late 1920s; and the Great Depression was not enough to stimulate a turning point similar to that of the early 1920s. Further explanations are needed.

The first explanation may be based on expectations. As a matter of fact, players, that is to say, governments and public opinions, do not know with any degree of certitude the future pay-offs from present strategies; and these pay-offs may turn out to be rather different from what was expected. This may offer some degree of explanation for the collapse of cooperation in the late 1920s. In the immediate post-war years, returning to the '*belle époque*' seemed possible and potentially rewarding in economic life. The most suitable institutional framework did not rebuild itself spontaneously, so international cooperation was necessary as a tool for institution building; and the minimum amount of international cooperation required to create a surrogate for the institutions of the '*belle époque*' did, in fact, materialise. However, such a surrogate yielded little reward when compared with the hopes that had been placed in the 'back to normalcy' remedy, mainly because of the disturbances provoked by the war debts and reparations. Thwarted expectations led to the breakdown in the already limited international cooperation in the late 1920s; and economic and financial collapse soon followed.

Similarly, undue hopes were placed in the beggar-my-neighbour strategies adopted against the Great Depression. For most governments and public opinions (the main exception, perhaps, being Germany), refraining from international cooperation proved to be a lure that led to nothing but protracted stagnation or even further recession. However, the return to cooperation did not materialise. Perhaps this happened because expectations about cooperation were unduly low at the time, as a consequence of the less positive experience of the 1920s. But another alternative explanation – based on attitude – may also perhaps be adequate for clarifying this situation.

Economic models are usually based on the assumption of a rational selfish attitude, which implies that the absolute welfare of each player is their only concern. Given the framework of a standard prisoner's dilemma game with communication, such an attitude would promote cooperation. However, the result may be quite different when an envious attitude predominates. An envious attitude implies that the relative welfare of each player in comparison with the welfare of other players becomes their main concern, and that the welfare of other players contributes negatively to the welfare of each player.¹⁰ As far as the interwar years are concerned, the wish to better each country's situation, regardless of the fate of other nations, was compatible with some degree of cooperation in the early and mid-1920s; but the concern with relative gains; and the fear that cooperation might turn out to be more advantageous for someone else (who might turn into a potential enemy¹¹), may have precluded any kind of

10. Formally, as a consequence of their envious attitude, E defects, not because $EDC > ECC$ and $EDD > ECD$, but because $OCD > OCC > ODD > ODC$, and the main concern is that other players should be worse off (and, conversely, other players defect, not because defection dominates cooperation in the traditional perspective, but to ensure one of the two worst possible outcomes for E in the chain $EDC > ECC > EDD > ECD$).

11. As an example of the constantly changing alliances of the times, it should be remembered, for instance, that Italy was the main international opponent of Germany's first attempt to absorb Austria in 1934, because it preferred an independent Austria as a buffer against a too powerful neighbour, and later became an ally of Germany in the late 1930s and the Second World War.

collective action (even if favourable results were expected from a purely selfish point of view) in the late 1920s and 1930s.¹²

Conclusion

The evolution discussed in the previous sections of this paper should give us some warnings about the various dangers that the world in general, and Europe in particular, face today.

The world in general and Europe in particular are not emerging from a global war (and hopefully are not heading into another one). However, in the late 20th and early 21st century, private and sovereign agents have accumulated gross debt of an amount unheard of in previous times.

The accumulation of public debt resulted from mainly two causes: the lavish and asymmetrical use of public deficit as an instrument of short-term anticyclical economic policy; and the building of welfare-state institutions without due consideration for their long-term equilibrium conditions. As far as anticyclical economic policy is concerned, the asymmetrical aspect is perhaps the most crucial one. As a matter of fact, governments were usually ready to intervene in cases of recession, but were slow to react in cases of inflation, not to mention the fact that they were unwilling to restrain apparently harmless growth just for the sake of maintaining balanced budgets over the economic cycle. The difficulty in implementing the rule of balanced budgets over the economic cycle, included in the European Union Stability and Growth Pact since the late 1990s but never brought to fruition, illustrates the bias that has become deeply embedded in the practices of economic policy, despite theoretical advice to the contrary. As far as the institutions of the welfare state are concerned, it was always politically comfortable to design them, in the context of either a capitalisation scheme or a redistribution scheme, in

12. Of course, a generous attitude, according to which the welfare of other players contributes positively to the welfare of each player, would be even more favourable to cooperation than a selfish attitude. But such an assumption is perhaps too unrealistic, either in economic life or in international relations.

such a way that they provided large benefits and required small contributions, disregarding the necessary mechanisms for safeguarding against possible unsustainable long-term trends.

The accumulation of private debt resulted from mainly two causes: speculation over real estate and security assets; and the plummeting of interest rates in the wake of the formation of the euro zone for several peripheral countries. Together with the trend towards shortening the contract periods agreed for the settlement of debt, “the heavy and frequently unpredictable movement of mobile short-term capital” born in the interwar period and the opportunities opened up by the dismantling of regulations set up since the 1930s, brought about the international crisis of the last few years of the first decade of the 21st century, the bursting of the so-called subprime bubble, and the European crisis that followed in the early years of the second decade of the same century, the so-called sovereign debt crisis.

To sum up: although the origins of debt are quite different, almost all the destabilising features of interwar international debt are present today, and the size of the sums at stake is much larger, both in absolute terms and in proportion to the level of economic activity. Is international cooperation ready to play its part in reducing the dangers and tension involved?

The honest answer is no. It is true that the institutional framework of international cooperation has also become much more sophisticated than the one that existed in the interwar period. The United Nations in the political field and the International Monetary Fund, the World Bank, and the GATT/World Trade Organisation in the economic field have a record that spreads over several decades, with inevitable ups and downs, but without any disastrous failures similar to those of the League of Nations. However, besides the existence of an adequate institutional framework, the elements of positive expectations and a favourable attitude, which were already found to be decisive in the interwar period, are needed to fuel concrete results in the field of international coopera-

tion; and an examination of processes such as the protracted negotiation and implementation of the Basel Agreements on international banking, or the failure of the Doha Round on international trade, show that these elements have been nowhere near as active as one might wish at today's world political and economic summits.

The rather peculiar architecture of the European economic and monetary union creates additional institutional fragilities in the context of the European Union. For the first time in contemporary history, we are witnessing an attempt to build an economic area where the traditionally coinciding features of a national economy – customs, currency, fiscal system, economic policy and economic regime – apply to different relevant regions, and the traditional balance between a fiscal and a monetary central authority – a ministry of finance and a central bank – does not exist (the centralised element of the Eurogroup and the decentralised element of the European System of Central Banks being minimal). Moreover, the geopolitical evolution has not favoured an attitude of cooperation among the European Union partners, as the traditional external threat represented by the Soviet Union disappeared, and was replaced by a much more diffuse threat from Muslim fundamentalism. As a consequence, government clashes, however disguised these may be by the issuing of pleasantly-worded declarations, and, what is much worse, the widespread mistrust exhibited by public opinion, threaten to prevent any true collective action at the European level. As clear proof of this paralysis of the European Union, mention may be made of the inability to put forward credible policies to fight the depression that threatened to follow the bursting of the subprime bubble and later the so-called domino effect in the spread of the sovereign debt crisis, firstly from Greece to Portugal, then to Spain and Italy, and the inability to avoid the interweaving of the sovereign debt crisis with banking difficulties, which then fed back into even more sovereign debt problems, at least in the case of Ireland.

It is possible to argue that, at least for the time being, democracy and

peace do not seem to be in danger; recent cases of technocratic governments in Greece and Italy, sometimes presented as negative signals, should not be a concern as long as respect for liberal and democratic procedures is maintained. The problem lies in different questions: discontent with the failures of democratic governments and the deceptions used to conceal or justify those failures; and mistrust in the partners involved in international cooperation. The increasing erosion of the necessary expectations and attitudes may lead to isolationist reactions and mounting conflicts. Europe is no longer at the centre of the world. Thus, European conflicts, however harmful they may be to Europeans, no longer imply a world war. But this should not be enough to remove our concerns at the world level. The danger of a clash of civilisations, especially over access to natural resources, where adequate supplies are threatened because of imbalances provoked by human activity, cannot be excluded as the major problem facing mankind in the 21st century.¹³

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13. For a reflection on this topic, see Nunes, Valério, 2007.

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