Czego uczy nas historia gospodarcza?

12 ROZMÓW NA TRUDNE CZASY

# What does economic history teach us?

## 12 CONVERSATIONS FOR TOUGH TIMES

### Does war affect national and global economies and how?

**Professor Paweł Grata and Professor Piotr Franaszek from the Jagiellonian University in Krakow discuss.**

**Paweł Grata: Good morning, welcome to the first conversation in the series "What does economic history teach us? 12 conversations for tough times". The talks are being held as part of a project funded by the Ministry of Science and Higher Education's The Social Responsibility of Science programme, carried out by the Department of Economic and Social History at the Institute of History, University of Rzeszów. Today's guest is historian Professor Piotr Franaszek, Jagiellonian University, with whom we are going to talk about a very topical subject, we never thought that it would be so topical when preparing our project, war and the economy, the impact of war on the economy - positive, negative, what effects do armed conflicts have on economic life? Traditionally when we talk about economic history we will show the processes of armed conflicts in the past, the economic processes, the social processes and how this has evolved, how wars have influenced, are influencing and perhaps will influence economic life. Professor, what does war mean for the economy?**

Piotr Franaszek: War is first and foremost a tragedy for the people involved in that war, first and foremost for the nations affected by it. But one of the aspects of war is always precisely the economy and the impact of war on the economy, in the vast majority of cases a negative impact on the economy and in various aspects. What is most imposing and obvious is the damage, the war damage, and therefore the damage to industry, the damage to workplaces, the damage to agriculture, but above all the population loss, because this is a very important aspect both economically and socially. War consequently leads to the breakdown, the destruction of socio-economic ties, which are the basis of any business. As a rule, in the context of the state budget, war leads to the fact that this budget also begins to simply not fold, begins to simply be a hole in relation to the pre-war period. We usually record very serious losses, for example, during the First World War the German state budget declined six times. Another aspect of all this is inflation, which hits the average citizen of the country in question. on an ongoing basis, it

carries such losses, but as a consequence, all these problems also spill over into other countries, and into the post-war period in many cases. So, for example, if we cite a few examples of such wars in the past, which were fought in one way or another, but had major economic consequences. For example, let us turn our attention to the Napoleonic wars, when Napoleon I declares a continental blockade. By design, this is supposed to hit Britain's economy. The effect is exactly the opposite. Britain losing its European markets develops completely different trade links with other countries, especially overseas, develops its agriculture, and as a result, when Napoleon falls, France, which has too weak an economy to counter Britain's, loses out on the whole arrangement. And the import of goods from Britain, because a very important aspect of armed conflict is the cessation, or hindrance, of international trade. Another example of the huge impact, the significant impact of a quasi-local conflict, but on the whole economy, is the Yom Kippur War, the 1973 war in the Middle East. As we know, the Middle East has long been a very inflamed region, still actually in permanent conflict. However, when this war broke out, it began with an attempt by Egypt and the Arab states to retake areas occupied by Israel as a result of the Six-Day War. It turned out that the support that the US and other Western European countries gave to Israel resulted in an oil embargo announced by OPEC countries. The result was a deep oil crisis, an energy crisis, throughout the modern world, so to speak, with highly developed economies. These countries were absolutely not prepared for such a situation. Another aspect of armed conflicts is the financial problems that arise. I have already mentioned inflation, then the problem of overcoming this, but also in the international aspect, and here, too, we have a great many examples that have just been spawned by war. The First World War, for example, led to a situation in which European countries, France, Britain, became more and more indebted to the United States. They simply could not sustain their military effort enough to fight the Germans effectively. In turn, this indebtedness resulted in these countries becoming very dependent on the United States after the war. What is more, this situation meant that the stock of gold, bullion, which was in the resources of precisely Britain or France, especially in Britain, was flowing overseas strengthening the American economy, weakening the British economy, to the point that at one point even the British suspended the convertibility of foreign exchange into dollars. This problem was even more acute during the Second World War, when Western European countries also became completely dependent on American imports, while at the same time exports from Western European countries fell, leading to a worsening negative trade balance. As the war came to an end, it turned out that the United States - this is the positive aspect of the war, in inverted commas, in the case of the United States - really strengthened its economic position, but this led to a very serious financial crisis. Well, and the attempt to resolve this ended with

the so-called Bretton Woods Conference in July 1944, when actually countries abandoned the financial system that had been in place until then, based on bullion reserves, and switched to the so-called dollar-devaluation system, the 'gold dollar standard', which meant that actually the US dollar became international money, because the convertibility of foreign exchange into gold was suspended, unless it was dollars, and so only dollars could be exchanged for gold. As a result, all other currencies sort of lost their position against the US dollar. So these are very important aspects, and this international exchange, trade, this is a very important aspect, well, because the world revolves around international trade, the interruption of these previously developed and sometimes very difficult trade agreements of one kind or another. The war introduces very serious perturbations in all this, so again after the Second World War, looking for some solutions to this whole situation, the dependence of Western countries, on the United States, they were looking for a path that would lead to trade liberalisation. And then came the signing of agreements in 1947 under what is known as the GATT, the General Agreement on Tariffs and Trade. which only gradually meant that trade was liberalised and, as a result, countries slowly became partners in trade. There are a number of other issues related to this financial aspect, which came to the fore forcefully after the First World War, when Germany was burdened with very high contributions to the victorious states, the Entente states, but at the same time it very quickly became apparent that Germany was not in a position to pay these obligations. On the other hand, Great Britain, France went into debt to the United States. Initially, the Western states assumed that they would pay these obligations with German reparations. Germany soon declared bankruptcy, and there were two plans that tried to remedy this, the Charles Dawes Plan in the 1920s, and the Owen Young Plan in the early 1930s. which were to make it easier for Germany to repay these reparations. Very quickly it became apparent that Germany was not going to repay them anyway, or had suspended or refused to repay them at all. And we came to just such a stalemate. Then the Second World War broke out, which "solved" the whole problem. These historical references are extremely important. Besides, there is much to be said for the fact that it is often these economic factors which, if not decisive for the outbreak of wars, are nevertheless important, and are one of the elements when we talk about the causes of wars.

**The First World War...**

The First World War. Even earlier, I would draw your attention to such a war, quite exotic for us, the so-called saltpeter war. It was a war fought at the turn of the 1870s and 1880s in South America between Chile, Bolivia and Peru over deposits of saltpeter, which was a very important fertiliser used at the time and a very valuable export commodity, so to

speak. There was another aspect there too. Sometimes this war is called the war for the Pacific, so it was about gaining access to the Pacific as a result of this war, Chile moved Bolivia away from the Pacific, well, and took over these deposits. As you just mentioned, the First World War, here and France, which wanted to regain Alsace and Lorraine, very important provinces from an economic point of view, in turn Germany, which entered the First World War with the desire to obtain colonial possessions, because at the moment when the world was divided between the great powers, above all Great Britain, France, but also countries such as Portugal and the Netherlands, which had their possessions, Germany was practically excluded from this division. This is also a very important economic aspect of this war. If we look at the Second World War, well, in addition to all the ideological premises that Hitler was guided by, the economic premises, that is, the seizure of so-called living space, the seizure of rich lands that would provide food for this "master race", or the seizure of industrial plants, modern industrial plants. Poland in particular experienced this when the Germans, at the time when they occupied our country, took away equipment, machinery and destroyed it, but at the same time they were able to exploit such a plant as Huta Stalowa Wola, which was a modern plant that had just been launched and opened. If you have just mentioned the most recent times, Professor, if we are looking at the war in Ukraine which has been going on for two years now, then specialists are also looking at the economic aspect of the Russian aggression against Ukraine. Leaving aside the propaganda aspect raised by Russia, that Ukrainians and Russians are one nation, it is well known that the east of Ukraine in particular is very rich in mineral resources; there is coal, very rich deposits of hard coal, but what is very strongly emphasised is, above all, the so-called rare earth elements, i.e. lithium. It is said to be estimated that a quarter, or even more, of the lithium deposits in Europe are located in Ukraine. Lithium is currently used in a great many branches of production, in the automotive industry, in aviation, in medicine, in electronics. In addition, there are also deposits of titanium, beryllium, very important, such rare metals. What is more, these aspects are also said to have been taken into account precisely when the war started and when the Russians are occupying these areas to this day.

**We know that war is evil. This is where there seems to be no doubt, nothing to support. Every war brings with it many dramas, misfortunes, losses, casualties and those long-term effects that you, Professor, also mentioned. But at the same time, we must be aware that war sometimes brings benefits to the economy. Why is this the case?**

Well, that is, it benefits some, it does not benefit others. We can talk about such positive sides of war and armed actions. It is that if we look at Nazi Germany, for example, it has

been estimated that between 1934 and 1944 Germany's GDP grew at a very fast rate, roughly 4% per year. That is a very high rate. This was linked precisely to the development of the arms industry. Well, because this is the important aspect of warfare, when the allocation of capital is shifted precisely towards the armaments industry and other industries, metallurgy for example, which support the development of the armaments industry. This happens at the same time at the expense of other frontiers of industry, well extremely important to the average citizen, who is somehow disadvantaged then, because their needs are not being met.

**The famous slogan 'cannons instead of butter'.**

So that's it, so that's it. And now we have precisely the example of Germany, but at the same time, when Germany lost the war, the war was over, it turned out, the GDP flew through the roof, the country was ruined in fact. At the same time, during the Second World War, at the same time American industry was thriving, thriving, because not only that it was an arms industry, but at that time the Americans were meeting the food needs of Europe, or some countries in Europe at least, and so agriculture was growing, the chemical industry was growing, which worked for agriculture, but it also worked for other industries. It developed, because this is another aspect of what we might call the positive effects of war, a number of scientific and research works were carried out, which were to lead to the construction of ever better methods for fighting the enemy, but at the same time, thanks to this, new branches of production were created, laboratories were established, very many scientists and scholars were engaged, who carried out certain activities, supposedly, certainly for the army, for the army, for military purposes, but as a consequence, all these activities also turned out to be useful in civilian life. We have, and this is probably worth mentioning at this point, inventions and achievements of this kind which either already appeared before the Second World War, because the Second World War in particular is worth noting in this respect, or the Second World War, the war effort, so to speak, forced the search for solutions which were later very useful, useful and used in civilian life, simply for all citizens. We can speak here, for example, of aviation, and so the invention of radar. Today, we cannot imagine air communication or shipping without radar. It was the Second World War that brought this device to near perfection. If we are talking about aviation, the Americans built a pressurised cabin for their B-29 superfortresses so that they could fly at very high altitudes, unaffected by fire, from enemy artillery. Today, we cannot imagine aircraft that fly at altitudes of more than 10,000 metres without such cabins, creating such capabilities. The British built such a system, the OBO, which is a target guidance system for bombers, which was actually the prototype for today's ILS systems that guide aircraft when landing in difficult weather

conditions. Jet engine. All today, or most today, or almost all, maybe not all, but nevertheless the vast majority, of passenger aircraft are powered by jet engines. This is also the work of the Second World War, a bit of the British, but especially the Germans, who even introduced the Me 262 jet into the war effort in 1944, but that couldn't decide anything anymore. The rocket industry, also German, from Werner von Braun, creator of the V1 rocket, the V2 above all, the first ballistic missile, then creator of the American space programme, from the first rockets to the American landing on the moon. Nuclear power, yes, built to kill, weapons of mass destruction. We had the examples of the Americans twice living with the atomic bomb in Japan, but on the other hand, for peaceful purposes, the atom was shown to be usable. A number of other examples could be cited here, the plastics industry, the popular polyurethane, is also an invention of the Second World War. Nylon - the Americans, or the Allies in general when landing from Normandy, used parachutes made from nylon, which was advertised as strong as steel and thin as a spider web. Very quickly the clothing industry took an interest, and right after the war, still at the end of the war, women's stockings just happened to be the rage, just made of nylon. The drink Fanta, which people don't even know is so popular today, was also an invention, a German recipe, or the German branch of Coca-Cola. It turned out that with the outbreak of war all those necessary substances that had been imported there from America simply could not reach them any more, so the Germans invented something like this, which Coca-Cola then took over as its drink. I would, however, like to mention the Poles, who also contributed to some important constructions, some inventions, which had military applications, but were also later used in civilian life. So Jozef Kosacki, who built an excellent apparatus for detecting mines, in fact for detecting metals in the ground. There's a whole story here related to, maybe I won't tell it, why it was Kosacki, a Polish engineer who was in England at the time, who won the competition, if you like, against other designs. His design turned out to be the best design. Here we would also have to mention Henryk Magnuski, who was in the United States when the Second World War broke out. He worked for a company called Motorola in 1947, where he developed and built a portable radio, or what is now known as a walkie-talkie. At that time the Americans had already given such a popular name. So we can say that these are some positive consequences of the Second World War. We also have to look at the development of medicine, and so penicillin, which was also Alexander Fleming discovered the bactericidal effect of penicillin before the outbreak of the Second World War in 1928, but nobody took it seriously yet, they didn't use it then. It was only during the Second World War that the Americans started mass production of this medicine, which saved hundreds, even thousands of lives of American soldiers, or Allied soldiers in general. So these are some such good points, in inverted commas, of the war, had it not been for the

war, maybe one day too, of course. But much later. Yes, but it was the technological acceleration that the war forced.

**It seems, which doesn't sound very optimistic, that the more terrible the war and the longer it lasted, the greater its impact on technology. The First World War also incredibly accelerated the development of automobiles, for example. Those designs that were very primitive before the war, and then those few years of fighting, the development of tank production, the development of car production. After the war it was a completely different industry.**

The development of aviation, which before the First World War, yes, the Wright brothers made the first such flights, but it was the use of aviation in warfare and the subsequent improvement of these aircraft that led to the development of passenger flights on aircraft in the inter-war period. Also what you mentioned, Professor, the car industry, it too changes its face in the interwar period. And the Second World War was even more terrible, even more horrible, which people didn't foresee, because the First World War was called the Great War and sometimes people talk about it as such, but the Second World War turned out to be even worse for people and with much worse consequences, in the economic sense as well, but also a very important aspect, which is obvious, is the demographic losses that every war brings with it. The First World War, the Second World War. To date, we do not actually know how many people died in the First World War, the Second World War, estimates are given of between 40 and 50 million, but nobody really knows exactly. We suffered huge losses, because these figures are also uncertain, but they are somewhere around those six million. The last counts below these six million, but either way these are terrible numbers. If we are talking about people, war also means not only losses, in the sense of the number of people killed, now not only of those directly involved, in other words I am talking about soldiers and officers, but also civilians who die, many people are crippled, many people suffer, and this is stretched over time, from various types of injury. But it is also, as the Second World War also convinced us, but not only that, because to this day in various places around the world we experience displacement. People are moved from place to place. After the Second World War, it is estimated that some 60 million people were removed from their previous places of residence. And this applies to the Polish population, it applies to the Germans, it also applies to other nationalities. But we also see today, with the wars currently taking place, people are migrating, people are fleeing, people are being forced to change their place of residence. We have conflicts that are hardly spoken of in the light of day, especially in view of the war in Ukraine or the war in the Middle East, but there are many more of these local conflicts that are also tragedies for people. There is the armed conflict in Sudan, an

internal conflict where there is a struggle between various groups for control of the oil fields, and where thousands of people are simply being chased out of their former places of residence.

**There, it is difficult to talk about the positive effects of such a war.**

Of course it is. Let us look at Syria, we have already got used to it, in fact we no longer know who is fighting who, we hear that Israel sometimes bombs, someone there bombs, they fight each other, but no one realises that Syria, before the outbreak of this whole internal conflict, had a population of around 21 million, at the moment half of this number is left in Syria, that is, the state has lost half of its citizens, of whom around 400 000 people have died. And there are certainly many, many, many more examples of this in the past and simply today. So rebuilding all of this after the war, because it is relatively easy to rebuild industry, although we have all sorts of difficulties here, because the infrastructure is destroyed, the rebuilding of infrastructure also drags on over time, makes it difficult to rebuild businesses. On the other hand, the return of this demographic rate from before the war is generally much more difficult and much more drawn out over time. Germany, for example, lost around 10% of its population during the Second World War. and the return to pre-war status only occurred in the early 1950s, so throughout this time Germany was still facing very serious demographic problems. Again, there are many such difficult aspects here, and let us remember that in fact every such event involves a human tragedy.

**Today's wars probably have the same effects, only they are local wars, wars that we sometimes do not even hear about, but we see their effects through, for example, the hundreds of thousands of immigrants who have just had to leave their homes. This is the most visible symbol of these modern wars. Apart from the fact that we can often see them on television or on the Internet. However, wars certainly continue to bring drama and loss, and it is hard to imagine what benefits can be found in wars such as those in Sudan or Israel at the moment, because here, however, this direct translation, such as Bretton Woods, well, after the Second World War, it was possible to create a modern financial system that secured the functioning of trade for several decades. This exchange could have been expanded and facilitated, whereas today's wars, often local wars, do not have such positive effects.**

That is precisely it. I should also like to refer to two aspects of what the Professor said. On the one hand, population pressure, which we are now seeing in connection with the war in Ukraine and which has also been mentioned. It is assumed that Russia together

with Ukraine produces roughly 1/4 of the world's wheat. We also remember and experience how great the problems were in connection with the actions of the Russians regarding the export of Ukrainian grain via the Black Sea. I do not know whether the Russian mines on these trade routes and the wheat transit issue have been resolved, but why am I mentioning it? It is because we have been told that a shortage of wheat in precisely those countries in Asia and Africa could lead to an increase in the migratory pressure that Europe is currently absolutely unable to cope with, and a war such as this, which is taking place far from the African continent, could lead to a situation in which this migratory pressure becomes even greater. But still in the context of just these other wars, as we were talking about this Bretton Woods, but the war, the Second World War certainly contributed to the growth of integration processes in Western Europe. This is a very important aspect, such a positive one, let's say. On the one hand, it was a conflict which was devastating for all sides, in fact, because both France and Germany suffered significant losses, of course, and at the same time these countries understood, firstly, that such wars are mutually destructive and lead to nothing, and, secondly, what we were saying about relations with the United States. The First World War, and especially the Second World War, made the United States a real superpower, also in this economic sense. And now Europe has become such a hostage, in the sense of precisely the credit dependence on the United States, and now the policy of some European leaders - but we need to create a strong Europe that can stand up to the policies of the United States. So that's where the integration drive came from, and that was the creation of the European Coal and Steel Community in 1951, which was kind of the leaven that led to the European Economic Community in 1957, and that eventually led to the European Union under the Maastricht Treaty in 1992. So it is a kind of, well, long-term effect, but nevertheless an effect of this great conflict, which led to so much destruction.

**But in conclusion, certainly, despite the awareness that wars bring some technological progress, they can teach lessons, very costly, very brutal, but lessons that led, for example, to European integration, it can be said that economic history rather shows that it is better to avoid wars than to benefit from their sometimes positive effects.**

Absolutely. Yes, because certainly perhaps we would have worked longer on certain positive aspects of our lives, or improving our lives, if it wasn't for the war, but the tragedy that is, any tragedy that is associated with any war, you can't compensate for it with anything.

**Thank you very much, Professor. Our guest was Professor Piotr Franaszek, historian from the Jagiellonian University.**

Thank you very much.