

THE INTERNATIONAL ECONOMIC SITUATION DURING THE PERIOD BEFORE AND AFTER WORLD WAR II: AN ANALYSIS

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ABSTRACT

This paper discusses the international economic situation during the period before and after the Second World War (1939-1945). There were completely different situations during the period of 1919-1939 and the period after 1945. Why different situation occurred in international economics? What were the factors contributed to the situation? The objectives of the paper are; firstly to explain the different international economics situation during the two periods and, secondly to analyze how important the role of the hegemonic power in international economics? This paper concludes that the different economic situations have strongly related to the role played by the hegemonic power. The role played by the hegemonic power is important in creating stability the international economics. Without a strong and effective hegemonic power, it is impossible in creating international economic stability. Good regulation and good international economic institutions are nothing without a strong and effective hegemonic power. The period of before and after the Second World War was different because the different roles played by the American hegemonic power.

Keywords: hegemonic power, economic stability, economic institution, inter-war period, post-war global economy.

INTRODUCTION

The international economic situation during the period before World War II (1919-1939) was completely different from the situation of the period after World War II ended in 1945. The period of inter-war from 1919 until 1939 was coloured by the bad economic situation. World War I from 1914-1918 gave a negative impact on the international economy. The international economic situation during the inter-war period was entirely different after the end of World War II. The author would like to analyse the economic situation with the role played by hegemonic power. How important is the role of the hegemonic power in managing and creating the stability of the international economy? There was no effective hegemonic power between 1919 and 1939. Great Britain failed to play her role as a hegemonic power as before World War I. The situation was different during the period after World War II where the American was very strong, willing and ready to play as a hegemonic power.

This paper discusses the international economic situation during the period before and after the Second World War (1939-1945). Why different situation occurred in international economics? What were the factors contributed to the situation? The main objectives of the paper are; firstly to explain the different international economics situation during the two periods and, secondly to analyze how important the role of the hegemonic power in international economics? The role played by the hegemonic power is important in creating stability the international economics. Without a strong and effective hegemonic power, it is impossible in creating international economic stability. Good regulation and good international economic institutions are nothing without a strong and effective hegemonic power. The period before and after the Second World War was different because the different roles played by the American hegemonic power.

METHODOLOGY

Objective of the Study

The study has three main objectives, namely:-

1. To explain the different international economic situation during the period of before and after World War II,
2. To explain the factors responsible for the different international economic situation and,
3. To analyse the importance of the role of a hegemonic power in managing and creating international economic stability and prosperity

Research Questions

This study has three main research questions:-

1. What are the differences in the international economic situation during the period before and after World War II (1939-1945)?
2. What is the major factor responsible for the bad economic situation during the period before World War II and a better economic situation after World War II ended?
3. To what extent does the role hegemonic power important in influencing the international economic situation?

Problem Statement

Hegemonic Power is recognised as one of the important elements in studying and analysing international politics and international economy. Hegemonic power plays significant role in the international political economy. This study explores the role played by hegemonic during the period before and after Second World War. To what extent the discrepancy in economic situation between those two periods was strongly influenced by hegemonic power? What happened to the economic situation after Second World War without a strong and an effective hegemonic power?

Scope of the Study

The scope of the study covers two decades before World War II (1919-1939) and two decades after the end of the World War II, from 1945 until 1965 emphasising the factors responsible and influencing to the international economic situation.

Theoretical Framework

The Theory of Hegemonic Stability is applied in this study. This theory is important in understanding the roles played by a hegemonic power and the relations with the economic development and political stability of other states in the international system. The main idea of the theory of Hegemonic Stability is that there must be a hegemon (a leader power), i. e. a single dominant and strong power in the international system to ensure international economic and political stability (Kindleberger, 1981; Webb & Krasner, 1989). Only a hegemonic power can establish the international rules that facilitate orderly exchanges amongst countries and should punish transgressors with predictable penalties. International economic institution cannot run effectively without a strong hegemonic power (Yazid, 2007). Laws and regulations in an international institution only would be effective when a hegemonic power play his role and willing to exercise as a hegemonic power (Gilpin, 2001; Kindleberger, 1973).

Method of Study/Data Collection

This study deploys a qualitative methodology which mainly uses secondary data such as books, journal articles and internet resources. Books written by Gilpin, Kindleberger and Keohane used as the precursor in this study. Articles written by distinguished scholars such as Strange, Gilpin and Keohane in the *International Organization* and *World Politics* are widely used in this study.

Literature Review

The role and how important of a hegemonic power in the international economy and international politics have been widely discussed by scholars of international relations and international political economy. Strange (1987) argued that a combination of four elements is necessary in explaining the emergence and survival of hegemonic power. The four elements are; the military-security, economic-production, financial-trade and, knowledge-technology element. The four elements are inter-related and influence each other and Strange (1987) depicts them as a pyramid. The four elements are important in making and contributing to the strength of hegemonic power.

According to Keohane (1984), to be considered hegemonic in the world political economy, a country must have access to crucial raw material, control major sources of capital, maintain a large market for imports, and hold comparative advantages in goods with high value-added, yielding relatively high wages and profits. It must be stronger on these dimensions taken as a whole than any other country. Keohane's criteria for hegemonic power emphasize factors that are related to economy and trade.

Gilpin (2001) supports the importance of a hegemonic power in international economic. He argued although it may be possible to create a stable liberal international order, but without a hegemon, this would have never happened. For Gilpin, a liberal international economy requires a hegemon committed to liberal economic principles, as Great Britain was in the nineteenth century and the United States was in the twentieth century. Baldwin (1993) supports that a hegemonic power is necessary for international economic stability. He writes that the hegemonic role played by the United States increased the economic welfare of most non-communist countries.

Strange (1987), Keohane (1984), Gilpin (2001) and Baldwin (1993) share the similar basic arguments that a hegemonic power plays significance role in international politics and economy.

DISCUSSION: THE INTERNATIONAL ECONOMIC SITUATION 1919-1939, ECONOMIC STABILITY AFTER WORLD WAR II AND THE ROLE OF HEGEMONIC POWER.

International economic situation during the period 1919-1939 and the period after 1945 was entirely different. The different situation has a strong relationship with the role played by the hegemonic power in the international economy. An unstable economic condition during the period from 1919 to 1939 due to the absence of strong hegemonic power in the international system. Great Britain cannot play her role as a hegemonic power after First World War because she was very weak economically. The better international economic situations after the end of World War II 1945 strongly influenced with the strong American hegemonic power. The positive economic growth of the United States during the inter-war period especially before 1929 strongly influence his role in creating the better position in economic and politics after 1945. The stable economic

situation is possible with the existence of a strong hegemonic power. Without a strong and effective hegemonic power, it is impossible in creating a stable international economic condition.

The Absence of Hegemonic Power and Unstable International Economic Situation, 1919-1939.

The two decades from 1919 until 1939 was an unstable economic situation at the international level. There was no hegemonic power during this period. Great Britain was too weak to play as an effective hegemonic power as before World War I, 1914. Great Britain economy was very weak after World War I, 1918 (Laison & Skidmore, 2003: 58 & 59). The conflict between Great Britain (hegemonic power) and Germany (counter-hegemonic power) during four years 1914-1918 resulted in bad economic situation for both powers.

The period of 1919-1939 could be considered as a “transition period” of creating a new hegemonic power. Great Britain was very weak economically and politically after 1918 and cannot continue to play its role as a hegemonic power (Cohn, 2008: 20 & 21). From 1815 until 1914, Great Britain was an effective and strong hegemonic power. Germany failed to replace the role played by Great Britain as a new hegemonic power. She was depressed and punished badly under the Versailles Treaty in 1919. At the same time, the United States of America became stronger and in a better position economically but not fully strong enough to take the role as a hegemonic power (Nye & Welch, 2011). The United State’s closed economic policy paves the way to the bad impact on the European economy, especially Great Britain and France. Great Britain, France and other European countries cannot run and improved their post World War I economy through international trade, especially with the United States (and the countries under the United States sphere of influence) because of the American “closed economic policy.”

Only the strong hegemonic power can create a stable international economy and politics. Economic institution and regional or international organization cannot run smoothly and effectively without strong support from a strong hegemonic power. An international organization, the League of Nations was formed in 1919 with strong backing by the United States president, Woodrow Wilson. This organization has good structure, regulation and good objectives. The main objective was to create international economic and political stability with final goals is to avoid future great conflict as was occurred from 1914-1918. Why the beautiful and harmonious objectives of the League of Nations failed? The answer is the absence of a strong hegemonic power in managing and regulating the international system. The United States did not join the League of Nations after the American Senate rejected the League of Nations and refused to support President Woodrow Wilson.

The League of Nations as an international organization cannot run smoothly and failed to achieve the objective in achieving a prosperous economy and international political stability. There was no strong power to play the role of hegemonic power. During the two decades after World War I, Great Britain and France were not strong enough in politics and economics to support and made the League of Nations run effectively. Economic factors are important in administering an international organization like the League of Nations.

Great Britain and France tried hard to manage the League of Nations. Both countries were very weak economically after World War I ended in 1918. The weak economic position of both countries had a negative impact on the success of the League of Nations and international economic stability. This had contributed to the failure of the League and international political economy in the 1930s. When the aggressive states (Italy and Japan) launched aggression against other states, Great Britain and France could not order a sanction and effective punishment to the abuser of the League procedure. Under article 16 League of Nations provides that “any war disregarding the League of Nations procedure would be regarded as a war against all the members of the League of Nations. The state that started a war would be immediately subject to economic sanctions, and the Council of the League of Nations might recommend further military measures (Nye & Welch, 2011). Why the Council of the League of Nations did not take any action towards Japan when she launched an attack on Manchuria in 1931 and Italy attack on Ethiopia in 1934? Both aggressions could not be settled by the Council of the League of Nations (dominated by Great Britain and France) because of the weak position in economic and military. Without a strong hegemonic position, he cannot run the sanction mechanism. The weak hegemonic position failed in managing and administering the condusive international system in achieving economic prosperity and international political stability. Finally, the Second World War broke out for about five years from 1939 until 1945.

International Economic Stability after World War II and the Role of Hegemonic Power

International economic situation after World War II was entirely different from the economic situation during the period before World War II, especially the situation in the 1930s. The international economic growth increased rapidly since the late 1940s continued to 1950s, 1960s and until the early 1970s. International trade, international cooperation and foreign direct investment increase rapidly. The better international economic situation was closely related to the international economic management led by the American hegemonic power and his Western allies. The fundamental post-war economic planning was the Bretton Woods Conference that was held in July 1944. The basic philosophy of the new international economic order was an open liberal economy. The United States realised that closed economic policy based on the Mercantilism perspective gave a bad impact on the international economy. There is no doubt that World War II occurred from 1939 until 1945 was due to the economic problem of the industrialised countries (Oatley, 2012: 18 & 19). Japan attacked Manchuria in 1931, Italy on Ethiopia 1934 and finally, German decision on Poland 1939 was closely related to the economic problem. In avoiding future conflict, the United States being the strongest economic power after World War II ended in 1945 must be a leader in the international economy.

Bretton Woods Conference in July 1944 established two important international economic institutions, International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF). A few years later (in 1947) General Agreement on Tariffs and Trade (GATT) was established. The main functions of GATT are to serve as the framework within which member states conducted a periodic round of multilateral trade negotiation aimed at the agreement to reduce tariff. The three institutions played an important role in international economic growth and development after World War II. The three economic institutions were called Key Economics Institution Organizations (KEIOs). These three institutions played an important role in rapid economic development, encouraging international trade and positive international growth (Cohn, 2008: 22&23).

The United States also created the American Economic Sphere and regional economic cooperation. In Europe, the European Coal and Steel Community was established in 1957 and became the European Economic Community in 1957. This regional economic cooperation objective was to reduce barriers to all form of economic interchange among the member states, and thereby to promote greater overall cooperation among the European Economic Community members. The United States also supported the formation of the Association of South-East Asian Nations (ASEAN) in the South-East Asian region in 1967 and cooperated with Japan, South Korea and Taiwan in the North-East Asian region. At the same time, the United States as a strong hegemonic power also provided international “public good” to that region for a conducive situation for economic activities. The North Atlantic Treaty Organization (NATO) in Europe in 1949, South East Asia Treaty Organization (SEATO) in South-East Asia in 1954 and bilateral Security Agreement with Japan, South Korea and Taiwan in the early 1950s were the “international public good” (security) provided by the American hegemonic power to his economic sphere. The United States also included Japan and Germany (that was excluded from American international economy during the period before World War II).

Why the above mentioned three institutions were effective and contributed greatly to international economic stability? Who was behind the formation of the above regional economic cooperation? Is it possible the international economic institution and regional economic cooperation running effectively and contributed to the better economic situation without a strong hegemonic power? The answer lies upon the existing of strong American hegemonic power after World War II and the practising of open liberal economic policy. Without a strong hegemonic power, the economic institutions and regional economic cooperation cannot achieve their objective. Good objective and harmonious regulations required political power to implement them.

CONCLUSION

There is a closed relationship between international economic situation, international political stability and the effective role of hegemonic power. The international economic situation during the period before World War II was bad because of the unstable international politics. During that period there was no strong and effective hegemonic power to run and control the international situation. Great Britain was not strong enough to run and control the international system. The situation was entirely different after World War II which was ended in 1945. The international economic situation became better with the effective role played by the American hegemonic power. Strong military and better economic power, the American created international political stability and improve the international economic situation.

Policy Implication of this Study:

Small and medium states in the international structure (like Malaysia) should have a good relation with hegemonic power (in the case of the period after Second World War, those states must have a good relation with the American hegemonic power). A good relation with hegemonic power is important in two ways; first, in creating a stable international structure (with bigger number of the state in the international structure giving their support and cooperation to hegemonic power, more stability could be created compared to in a situation where only a small number cooperated with hegemonic power). On the other hand, hegemonic power also has to practice an open liberal economic policy. The closed policy of the American during the period before Second World War paved the way to the bad international economic condition. International structure and international system of state are inter-related with each other. American closed economic policy during the period after the end of the First World War until the end of the Second War War gave a bad impact to whole international structure. Undoubtedly, Second War War broke out in 1939-1945 due to economic factor. Hence, economic stability is very important for international stability. Secondly, the small and medium state gained direct benefit from hegemonic power and his allies. Direct benefit might be in the form of international trade relation, foreign direct investment and in other aspect such as direct economic assistance and moral support in economic activities. It is impossible for a small and medium state in international structure to get direct investment, good trade relation and other economic assistance without a good relation with the American hegemonic power.

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