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OP-ED COLUMNIST

The Great Illusion

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So far, the international economic consequences of the war in the Caucasus have been fairly minor, despite Georgia's role as a major corridor for oil shipments. But as I was reading the latest bad news, I found myself wondering whether this war is an omen — a sign that the second great age of globalization may share the fate of the first.

If you're wondering what I'm talking about, here's what you need to know: our grandfathers lived in a world of largely self-sufficient, inward-looking national economies — but our great-great grandfathers lived, as we do, in a world of large-scale international trade and investment, a world destroyed by nationalism.

Writing in 1919, the great British economist John Maynard Keynes described the world economy as it was on the eve of World War I. "The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth ... he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world."

And Keynes's Londoner "regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement ... The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion ... appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice."

But then came three decades of war, revolution, political instability, depression and more war. By the end of World War II, the world was fragmented economically as well as politically. And it took a couple of generations to put it back together.

So, can things fall apart again? Yes, they can.

Consider how things have played out in the current food crisis. For years we were told that self-sufficiency was an outmoded concept, and that it was safe to rely on world markets for food supplies. But when the prices of wheat, rice and corn soared, Keynes's "projects and politics" of "restrictions and exclusion" made a comeback: many governments rushed to protect domestic consumers by banning or limiting exports, leaving food-importing countries in dire straits.

And now comes "militarism and imperialism." By itself, as I said, the war in Georgia isn't that big a deal economically. But it does mark the end of the Pax Americana — the era in which the United States more or less maintained a monopoly on the use of military force. And that raises some real questions about the future of globalization.

Most obviously, Europe's dependence on Russian energy, especially natural gas, now looks very dangerous — more dangerous, arguably, than its dependence on Middle Eastern oil. After all, Russia has already used gas as a weapon: in 2006, it cut off supplies to Ukraine amid a dispute over prices.

And if Russia is willing and able to use force to assert control over its self-declared sphere of influence, won't others do the same? Just think about the global economic disruption that would follow if China — which is about to surpass the United States as the world's largest manufacturing nation — were to forcibly assert its claim to Taiwan.

Some analysts tell us not to worry: global economic integration itself protects us against war, they argue, because successful trading economies won't risk their prosperity by engaging in military adventurism. But this, too, raises unpleasant historical memories.

Shortly before World War I another British author, Norman Angell, published a famous book titled "The Great Illusion," in which he argued that war had become obsolete, that in the modern industrial era even military victors lose far more than they gain. He was right — but wars kept happening anyway.

So are the foundations of the second global economy any more solid than those of the first? In some ways, yes. For example, war among the nations of Western Europe really does seem inconceivable now, not so much because of economic ties as because of shared democratic values.

Much of the world, however, including nations that play a key role in the global economy, doesn't share those values. Most of us have proceeded on the belief that, at least as far as economics goes, this doesn't matter — that we can count on world trade continuing to flow freely simply because it's so profitable. But that's not a safe assumption.

Angell was right to describe the belief that conquest pays as a great illusion. But the belief that economic rationality always prevents war is an equally great illusion. And today's high degree of global economic interdependence, which can be sustained only if all major governments act sensibly, is more fragile than we imagine.