

The Ukrainian War and Economic Liberalism

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Abstract

The paper tries to investigate the reasons of the Russia-Ukrainian war from the point of view of economic and political liberalism and pacifism. Back in 1909, Norman Angel posed the arguments about the futility of aggressive wars. Nowadays his reasoning seems still impressive. Russia cannot gain anything from this war in economic terms. The *Russian World* concept is behind the decision of the war outbreak. Ironically, Russia can be reintegrated into the world economy only if it accepts the refuted liberal values. Any new economic order will be inferior for Russia and will degrade the Russian positions in the world economy in favor of China. Future restoration of Ukrainian economy would require international efforts in the framework of a multilateral cooperation.

Keywords: war in Ukraine, liberalism, realism, *Russian World*, World System Theory, New Economic Order, *The Great Illusion*.

JEL: F15, F17, C33

Introduction: Pacifism against the War

More than a century ago, back in 1909, Norman Angel's book, *The Great Illusion*, appeared in public (see Angel, 2016). Much later, in 1933, the year when Adolf Hitler came to power, Sir Norman Angel received the Nobel Peace Prize for his contribution to the support of pacifism. Shortly afterwards, in 1937, Norman Angel's book inspired Jean Renoir for his great film of the same name.

The Great Illusion, even before the First World War, has been the subject of lively commentary and criticism. The author argues that the world trade and finance are so strongly interconnected between European countries, as well as between the United States and the colonial powers, that any military conflict would lead to the collapse of the world economy and the inability to continue hostilities.

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The development of the military operations and the state of the economy of the countries involved in the Great War seem to refute Norman Angel's claims. The war lasted not a few months, as expected by the author of *The Great Illusion*, but more than four years, and the production generally managed to meet the needs of the intense military clashes during the war of attrition.

Critics, however, forgot one important detail. Norman Angel wrote his book at the height of the gold standard, the apogee of the liberal capitalism. This system of stable exchange rates and self-regulating money circulation allowed for rapid development of international trade and finance. Banks and credit markets were strongly interconnected, telegraph connections rendered almost instantaneous dissemination of information possible and the cohesive functioning of the world economy as a whole.

However, with the start of the war, the gold standard collapsed. National currencies lost their convertibility. The competitive market economy ceased to exist. It has been replaced in all warring countries by different variants of a military planned economy. The state stood at the centre of resource mobilization and distribution. Credit and financial markets were distorted. Military activities were largely financed by printing money, inflation led to mass impoverishment of the population.

In other words, Norman Angel was right: the pre-war system of economic relations fell apart with the onset of hostilities. What was at work during the First World War was anything but a competitive market economy. In broad terms, the views of Norman Angel fell in the domain of the liberal economic thinking, postulating that the constraints on the free market forces create inefficiencies that affect negatively all participants in the military hostilities.

However, the incompatibility between the competitive market economy and the large-scale military activities was not the real focus of Norman Angel's book. The great illusion that the author actually dispels is the idea that positive economic goals can be achieved through war.

He convincingly proves that even the winner of a military confrontation ultimately loses, compared to the peaceful development of trade and finance. Very often defeated countries develop faster than winners do. The example of the rapid economic recovery of France after the Franco-Prussian War and of Russia after the defeat in the Russo-Japanese War is illustrative. Recently, the experience of defeated Germany and Japan after World War II is also quite impressive.

The conclusion about the futility of aggressive wars, i.e. the illusion that the aggressors can gain something through a military engagement is extremely important. Of course, gain here means the total economic well-being of the citizens of the respective country, measured, for example, by the average GDP per capita, and not some imaginary benefit.

Later, John Maynard Keynes added a new dimension to the futility of the aggressive war concept – the unexpected impossibility to punish economically the defeated side in the conflict. In his book *The Economic Consequences of the Peace*, Keynes (1919) argued that the economic reparations imposed on Germany are counterproductive and do not resolve

the economic problems, created by the war. Therefore, the return to normal international trade and financial relations is the only way to rebuild the war-disturbed world economy. To some extent this explains the fast recovery of the Western Europe from the Second World War.

The views of both Norman Angel and John Maynard Keynes can be categorized as belonging to the economic and political liberalism, meaning that they tried to find the solution to international economic and political issues via democratic institutions and free market economy. The liberal standpoint, however, is not universally accepted, so different points of view are brought into play to explain the still existing military confrontation and armed conflicts on the world arena.

Economic and political explanations of the Russo-Ukrainian war

Inevitably, the question arises about what are the reasons of the present conflict between Russia and Ukraine; how one can justify this unexpected use of force in order to resolve bilateral and multilateral political issues in 21st century? Why is the history of so many tragic and useless military conflicts irrelevant for contemporary politicians?

Here we will try only to outline some basic concepts and theoretical platforms usually used to rationalize the behaviour of Russia and the “collective West”. These are the *Russian World* paradigm, which is considered to be behind the Kremlin decisions, the realism and the liberal theoretical concepts, as well as the world system theory.

The *Russian World* is a Russian geopolitical strategy with the objective to unite the lands of Russia, Ukraine and Belarus and other states in a global transnational structure, based on common cultural and civilizational values (Aleinikova, 2017). Further, from the point of view of the Russian foreign policy, the term functioned in opposition to the competing global meta-geographic concepts like “the West” or “Atlanticism” (O’Loughlina et al., 2016). By this logic, the Ukraine is the main battlefield between the “collective West” and the Russian world.

The official explanations of the objectives of the Russian “special military operation” against Ukraine, namely the denazification and demilitarization of the latter, entirely fall within this definition of the *Russian World*. The question however is to what extent the *Russian World* epitome reflects not only the views of the Russian ruling elite but the longings of the Russian population. In an interesting paper, revealing the results of the sociological enquiry, conducted by the Russian Academy of Sciences, the authors conclude that the majority of the Russian population does not share the views of the *Russian World*, but would prefer a free, democratic, common good oriented country, a country to be proud of (Petuhov and Barash, 2014). These are entirely liberal standpoints.

Given these results, it is difficult to explain the popular support of the Russian invasion by the public opinion in Russia. On the other hand, however we should take into account the fact, that the Russian-Ukrainian conflict is the first war in the era of mobile phones and broadband communication. This created a new type of dictators, the so-called “spin

dictators". "Today's non-democracies no longer rely on fear and mass repression. Instead, they manipulate information. They deceive the public into believing that they are competent leaders. They pretend to be democratically elected. While admitting imperfections of their electoral procedures, they claim that these imperfections are no different from those in the West" (Gurieva, 2022). This is exactly what happens in Putin's Russia. This is also the way the *Russian World* ideas are imposed on the public.

The realism theory in international politics is based on the understanding, that the behaviour of the states on the international arena reflects the primitive human will to dominate and to drive for power. In particular, this doctrine argues that it is incorrect to blame Russia for the military intervention in Ukraine. The expansion of NATO and the active support of the pro-democratic movements create legitimate security concerns in Moscow (Mearsheimer, 2014). The problem is, that in the light of the *Russian World* concept, the NATO is an adversary whatever is its' conduct since it does not belong to the *Russian World*.

In its turn, the liberalism is claiming that human reason could deliver freedom and justice in international relations (Baylis and Smith, 2017). It utters the establishment of an international system of political and security relations based not only on power and domination but also on certain principles. The liberalism approach is quite close to the views of Norman Angel and John Maynard Keynes. From the liberal point of view, the reason for the Russian aggression against Ukraine is the internal political evolution of Russia and the ideology of the *Russian World*.

The world system is a neo-Marxist theory. Immanuel Wallerstein, the originator of the world system concept, considered the world economy as the most adequate level of analysis of the capitalist way of production. The world arena is a place of competition between nation-states capitalist economies. The industrial centre, periphery and semi-periphery emerged in the process of the evolution of the world-system.

One of the most prominent developments in the 18th and 19th centuries was the rise of the Russian empire as a semi-peripheral state. This was a consequence of the strength of its state-machinery, including army (Wallerstein, 1974). This semi-peripheral position means that the country possesses both centre (military power, extraterritorial influence) and periphery (export of raw materials) features. The Soviet Union was viewed as a part of the world capitalist system. The soviet regime was an attempt to overcome the semi-peripheral status of Russia and to become part of the core. Wallerstein (2004) considers that the present stage of the evolution of the world system is characterized by bifurcation and chaos. Such a situation is apparently particularly challenging for a semi-peripheral world power like Russia.

In fact, the end of the cold war marked the failure of the USSR to join the capitalist core as the main opponent to the USA. The new Russia had to choose between joining the capitalist core via accepting its liberal ideology and gradually integrating into the world economy or opposing the liberal core and becoming one of the centres of the emerging multipolar world. The *Russian World* ideology clearly paved the way towards the second

alternative. The question remains about whether this is the choice of the Putin team only or this evolution reflects a deep socio-cultural division between Russia and the West.

Consequences for the post-war world

Therefore, the war against the Ukraine seems to be a logical outcome of the geopolitical strategy of the Putin's regime. Nevertheless, the military activities surprised everyone with the resolute resistance of the Ukrainian armed forces. The Ukrainian defiance itself is a serious blow to the Russian World orthodoxy. The sequel of the conflict is however unclear.

The hostilities have enormous impact on the world economy. As the last IMF Global Financial Stability Report emphasizes, "repercussions of the Russian invasion of Ukraine and ensuring sanctions continue to reverberate globally and will test the resilience of the financial system through various potential amplification channels" (IMF, 2022). In spite of the fact that the reserves of the Russian Central bank were frozen and the increased use of foreign reserves other than dollar, the role of the IMF will objectively increase (Gourinchas, 2022). The situation with the role of the dollar is similar. "The upshot is that the dollar's role as the dominant reserve currency will likely persist, even if its status as a payment currency erodes, which itself is uncertain" (Prasad, 2022).

The global inflation will also last in the next several years, due to supply chains shocks, tight global labour markets, shift of supply towards goods and away from services, fiscal and monetary stimulus in the post pandemic economy and the war-induced hikes of wheat and energy prices (Agarwal and Kimball, 2022). In addition, the combination of inflation, food prices and climate change, added a new crisis – famine (Stanley, 2022).

Another problem is the acceleration of deglobalization. The economies of Ukraine and Russia already declined, but there is a significant probability that the trade between advanced economies and China will also drop, which is, sorry to say, quite likely under the current circumstances (Rogoff, 2022).

Not only is the role of the IMF here to stay, but also, in broader terms, the countries seeking to aid Ukraine must refer to and implement the international law, including the organizations that embody it, such as UN, while recognizing the need for reform (Clavin, 2022). Therefore, the consequences of the conflict will be resolved through the international multi-governmental institutions.

On the other hand, imagine that Putin succeeds in achieving his ultimate goals and occupies Ukraine.

What will he get? A ruined country with a hostile population. This country will hang like a millstone on the budget of Russia and the Russian economy as a whole. We should add to this the international sanctions, which will be felt more and more severely. The economic consequences of the "victory" will be catastrophic.

Needless to say, the so-called "collective West" and the world economy as a whole will also suffer. But the relative strength of the negative effects on the West and Russia will be

incomparable, given that countries with developed market economies are economically superior to Russia by 20-25 times.

Yet it must be admitted that the changes in the world economy, compared to the period before World War II, make today's sanctions more effective in terms of commercial losses than ever before (countries are strongly integrated via trade and capital flows), but they can also be weakened in new ways through trade diversion and evasion (Mulder, 2022). This means that Russia will be strongly hit by injunctions, but there are many ways of redirecting trade flows and avoiding financial restrictions. In addition, the strong increase of the energy and food prices substantially improved the terms of trade for Russia. The real effect of sanctions will take time to be felt.

The consequences of the Ukrainian conflict can also be analysed in the context of the formation of a new world economic order.

Norman Angel addresses similar issues in analysing the naval rivalry between Britain and Germany in the early 20th century. He noted that even if Britain lost its colonies in favour of Germany, in the normal development of economic relations, such a change should not affect the well-being of citizens on both sides. The subsequent disintegration of the British and the other colonial empires confirms this conclusion.

As for a possible new economic and political order within the modern world, the imposition of such an order is beyond the reach of Russia, which accounts for less than 2% of world GDP. A similar task could be pursued by a coalition between Russia and China, including other stakeholders. However, such a new order, even if implemented, will be dictated by China, and Russia's role will be as a raw-material appendage to the Chinese economy.

The new economic and political order is usually considered from the point of view of the emerging multipolar world. However, the threat of stagflation, the global food crisis, the increasing world poverty and the ecological hitches require a more effective multilateral system and fresh strategic understanding between major nations, most importantly, between the United States and China, as the world shifts perhaps towards multipolarity (Shanmugaratnan, 2022). Therefore, we conceivably need both multipolarity and multilaterality.

The multipolar world, as we can see, is inherently unstable. The present war demonstrates this. Therefore, we must consider also a return to a bipolar world, divided between China and USA, heading respective coalitions. In a bipolar world, the role of Russia will be inherently diminished.

The war once again proved the crucial role of the energy sector and the world energy supplies for the global macroeconomic trends. The energy related sanctions against Russia replaced the "greenflation" by "fossilflation". The evolution triggered by the war however seems to accelerate the transition to a net-zero emissions world (Wagner, 2022).

Such an evolution will be much more disadvantageous for Russia than the current situation, which allows the Russian side to balance its trade between Europe, the United

States and China. In other words, each new order will be a step backwards for the Russian Federation.

Conclusion

The lessons of *The Great Illusion* under modern conditions boil down to the fact that Russia has no economically viable way out of the military conflict with Ukraine given the current Russian political status quo. The solution is to abandon irrational ideas such as imposing the *Russian world* to Ukraine and the other neighbouring countries or rebuilding the USSR.

Ironically, the salvation for Russia lies in the return to the rational economic thinking, which is characteristic of liberal political and economic systems. The *Russian World* concept is a catastrophe for Russia. However, the abandonment of this paradigm requires an internal restructuring of the established political order of modern Russia.

Another two components will be important after the end of the present conflict. The first is a plan for the rebuilding of the Ukrainian economy and the second is the reintegration of the future democratic Russia into the world economy, following the Keynesian conclusion of the impossibility of compensating value transfers from the aggressors to the rest of the world. Alternatively, the role of Russia will be reduced to a raw-material adjunct to the Chinese economy.

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