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State Finance and National Power: Great Britain, China, and the United States in Historical Perspective

Jeremi Suri

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POWER FALLACIES

Foreign policy analysis is only as good as the empirical foundation on which it stands. Policy-makers need sophisticated theories to make sense of the deluge of information they confront on a daily basis, but theories that misread basic global dynamics are like business plans that misinterpret the market. Impressive ideas and shiny products elicit bankruptcy, rather than profit, when they are out of touch with their surroundings. Understanding the trends in the external world—what Hegel called the “spirit of history”—is more important than building the best model.

For about a generation, scholars of foreign policy (including both political scientists and historians) have written about national power with little attention to the most important recent empirical insights concerning the actual content of national power. In particular, scholars of foreign policy have treated national power as an end rather than a process, as a largely fixed and quantifiable measure rather than a set of evolving and ever-changing relationships. The noun “power” sounds fixed and firm, but the concept is, in historical terms, much more fluid and changeable on short notice.

Ubiquitous discussions of “hard” and “soft” power reinforce the false assumption that power is something discrete, measurable, and modular. The categories themselves seem fixed and ahistorical. According to many writings, power is a direct object of state policy: it is “built,” it is “deployed,” and it “declines.” Power often sounds like savings in the bank: you can have more or less; you can save it or spend it; and you can gain or lose interest on it, depending on how you invest.¹

This logical but empirically questionable way of talking about power contributes to three guiding assumptions that are, on closer inspection, largely unfounded. First, common discussions of power assume that having more stuff is good. We might call this the *materialist fallacy*. The general argument is that if you have more weapons, more resources, and perhaps more people (large populations appear good, crowded populations appear bad), you are likely to be more powerful. The intuition is that someone with plentiful capabilities can mobilize lots of stuff to make more of what he or she needs, and conquer others at little cost. Material definitions of power call for an accounting of who has more or less than another.

For Americans—who are blessed with material abundance—assessments of this kind make sense. Historical evidence, however, points the other way. As often as not, those societies with the most stuff have found themselves facing defeat at the hands of adversaries with so much less. Think of the Athenian defeat by Sparta and the Roman collapse to a collection of roaming paramilitary groups. The early modern world replayed this pattern with repeated victories by the cold, wet island of Britain over richer, better-endowed empires centered on Spain and France. The rise of the island nation of Japan in nineteenth century East Asia is a similar story, contrasted with the latent power of the huge mainland empire of China. Other things being equal, having more stuff is preferable, but it is not a clear path to lasting power.²

The second flawed assumption concerns technology. Observers of foreign policy generally assume that more advanced technology contributes to international reach and effectiveness. According to this argument (which I will call the *innovation fallacy*), scientific and engineering innovations offer the societies that excel in these areas a big advantage. This is a powerful argument for explaining why Britannia dominated ocean trade and warfare in the eighteenth and nineteenth centuries. The British had the most advanced ships, navigational instruments, and seaborne weapons. The British invested consistently in maintaining this technological edge, at least until the rise of a German naval challenger in the 1890s.³

Americans idealize inventors. We like to think that the innovators always win. That is simply not true. As often as not, innovators suffer from indiscipline, over-commitment, and

hubris. Innovators often believe that they can find a “solution” to any problem. In foreign policy, innovators have frequently failed to achieve their aims, and they have hurt their societies in the stubborn quest for a game-changing breakthrough against great odds. Historians Geoffrey Parker and John Elliott have described this phenomenon for Imperial Spain, and its efforts to bring innovation to the management of a vast and unwieldy empire that included Northern Europe and South America.⁴ T.E. Lawrence famously exposed how British efforts in the Middle East were indeed clever, but still inappropriate for such a diverse and complex region.⁵ Closer to our present time, David Halberstam was the first in a long line of distinguished authors to show how “the best and the brightest” Americans endeavored, unsuccessfully, to substitute innovation for good sense in Southeast Asia during the Cold War.⁶ Some observers have made similar observations about the less-than-successful efforts of America’s talented counterinsurgency innovators (John Nagl, Raymond Odierno, David Petraeus, and others) in twenty-first century Iraq and Afghanistan.⁷ Innovation does not always increase national power. It often has the opposite effect.

Culture, for some observers, is the key to making innovation produce positive results. This is the third flawed assumption about power, what I will call the *cultural fallacy*. According to this argument, labeled “soft power” by Joseph Nye and others, countries gain international leverage from the consent, or at least acquiescence, that emerges from the spread of ideas, images, and practices.⁸ Widely circulating ideas and images also empower new groups who evoke sympathy while the same ideas and images challenge assumptions about the legitimacy of traditional rulers, practices, and laws. Foreign citizens and leaders, by this logic, are less likely to resist and more likely to cooperate when they are convinced that they are on the popular side of a conflict. Entertainment and persuasion are more effective than guns and threats for those that treat power as culture.

More often than not, according to this argument, the popular side is the American or at least the “Western” side. Think of youth culture, rock n’roll music, and fast food as primary examples of Westernization through cultural diffusion. Behavior patterns often follow images

and sounds that are widely circulated in traditional and especially social media. In the words of one scholar, popular culture frequently makes American interests “irresistible” abroad.⁹ Some writers refer to an “Americanization” of the world by largely non-military means.¹⁰

The spread of American-influenced popular culture is undeniable, but so is the evidence that popular culture does not necessarily increase national power. Popular culture often empowers resistance against its initial source. This is the old pattern of rising expectations that Alexis de Tocqueville first articulated in his analysis of the French Revolution. Masses of citizens revolt when they see that they can have more, and they feel that someone, or some state, is standing in the way.¹¹ For African slaves in Haiti, the promise of French *liberté* and *égalité* inspired a bloody revolt against Paris.¹² For British settlers in North America, the expectation of property ownership free of onerous taxes, as advocated by British “country radicals,” also encouraged rebellion.¹³

Surveying the spread of American ideas and images of freedom in the twentieth century, one observes similar phenomena. The deeper the penetration of American culture, the more likely one finds active, sincere, and popular figures commanding local influence by their open challenge to American power. The Arab Uprisings of 2009-2012 are a recent example of this dynamic: courageous citizens in Iran, Tunisia, Egypt, and other societies performed protests that appealed to the “democratic” aspirations of foreign viewers, but they also condemned the local leaders and interests most closely tied to foreign interests. Cultural diffusion encourages simultaneous imitation and resistance, focused on the same sources. As Tocqueville recognized, those who inspire protest soon find themselves the target of the men and women making revolution.¹⁴

The common but questionable assumptions about the nature of national power—the materialist, innovation, and cultural fallacies, as I have called them—are sometimes true and sometimes false. They are fallacies because they assert a universal validity when they are, more accurately, contingent and context specific. They are neither “independent variables” in the parlance of political science, nor laws of change in the conversation of some historians. The

fallacies have little inherent predictive value for assessing the growth or decline of national power. They work as *post hoc* explanations for the rise and fall of states only because we already know the results. On close inspection, the winners of international politics only become more wealthy, innovative, and culturally attractive *after they have won*. To the winner go the spoils of historical inevitability.

POWER CAPACITIES

States do not “innovate” their way out of difficult circumstances, despite claims to the contrary. States also cannot reverse geopolitical shifts, especially when they have contributed to these shifts through their own behavior. What states can do is adapt and adjust to challenges, mobilizing new domestic capacities for cooperation, competition, and sometimes war-fighting. A successful international state is, therefore, a regime with effective internal political capacity. A failed international state is one that cannot draw on organized and consistent capacity at home.

Although poets, novelists, journalists, and movie-makers often dramatize the popular convulsions that make for social and political upheaval in long stagnant societies, historians have argued that silent transformations in the management of finance have a much greater effect on national power, and its global expressions. Similarly, ambitious ideological projects and impressive territorial conquests have less enduring influence on the leverage of states than the mobilization and management of capital. Power turns out to depend less on common displays of charisma and strength, and more on unseen manipulations of markets and money.

According to what is now a large and impressive literature, banking, taxation, and government spending have had greater influence on the international reach of states than regime type, aggregate production, or even military aggrandizement. The institutions for acquiring, deploying, and managing revenue have been more important than the obvious and often commented-upon attributes of political, industrial, and military force. From early modern Britain to the modern United States, the bankers and accountants frequently trumped the politicians, the industrialists, and the generals in determining the contours of national power.

Analysis of foreign policy has, to date, failed to focus appropriately. Too many pundits are enthralled with those who speak loudly, rather than those who allocate the real currencies of international influence.¹⁵

Finance is not determinative of state power. It is, of course, deeply connected to the material endowments, innovative capacities, and cultural resources of a society. The availability of inexpensive capital for investment and spending, however, is the necessary foundation for all manifestations of state power. Without sufficient capital, even the most advanced, cohesive, and legitimate government cannot sustain continued expansion of its capabilities. Available capital will not substitute for the other attributes, but it will allow the *possibility* for more state activity in pursuit of security and prosperity. A functioning system of finance is fundamental to sustained state power. The historical record is quite clear on this point.¹⁶

Effective state finance involves credible and competent institutions, and practices of governance and commerce that affirm the role of those institutions. Simply explained, the government must tax consistently, investors must believe that their loans will be honored, and consumers must trust that their property will be protected. Institutions, however, are only one part of finance. State leaders must attract and manage available capital to support productive uses, especially for economic growth and military security. This is the key historical variable: are effective institutions managed to encourage the allocation of capital for growth and security? Do citizens and investors have confidence that state institutions will continue to encourage effective capital accumulations and allocations for the public good?¹⁷

State power is, in the long-run, a reflection of financial capacity (embedded in institutions of banking and taxation) and forward-looking leadership (exercised by figures who use their authority to incentivize productive capital investments.) Effective leaders must do more than rule; they must attract wealth and encourage its uses for the improvement of the population and the state. Effective leaders are builders and protectors of national (and international) financial institutions that increase the capacity of the state and its people to push their self-

interested agendas. Power is, ultimately, found in the acquisition, management, and deployment of capital for strategic purposes. Finance is the lubricant for all parts of state power.

There are many different theories for state power in the modern international system: realist, constructivist, and liberal, among others.¹⁸ This focus on finance does not necessarily privilege one of these theories over another. What close attention to finance argues is that all descriptive and normative accounts of state power presume capital for mobilization of military, political, and cultural resources. To paraphrase Machiavelli, a prince can neither be feared nor loved if his treasury is barren. The successful prince must find ways to generate new wealth. Taxation and expropriation are two common mechanisms employed by many leaders for this purpose, but they are not sufficient in a competitive international system, and they are frequently counter-productive. The historical record since the eighteenth century points to an alternative path, beginning with what some have identified as the first modern “financial revolution.”

THE “FINANCIAL REVOLUTION” OF THE EIGHTEENTH CENTURY

Writing almost fifty years ago, British historian P.G.M. Dickson described what he called the “financial revolution” in England during the early eighteenth century—the period when the small island nation began its rise as an international power. Dickson observed the continued inferiority of English manufacturing and military activities in comparison to Spain and France. Both of the continental states had larger, richer populations and larger, richer empires. The English defended themselves against difficult odds and they leaped ahead of their competitors because of one major development in the late seventeenth century: the creation of a new system for the management of revenue and credit, centered on London. This new system did not arise overnight, and did not reflect the “genius” of any particular figure. The new system of credit emerged from conditions encouraged by the new English monarchy, after the Glorious Revolution, and the collection of North European bankers and businesspeople who sought better investment opportunities for their capital, and more long-term profit.¹⁹

Before these changes in the late seventeenth century, English investment deficiencies contrasted with the surplus capital that flowed into Spain from its Latin American silver mines. While the English were resource poor, living on a cold wet island, the Spanish benefited from an abundance of resources, extracted from a large mineral-rich empire. The French had similar advantages over England, especially based on the Bourbon monarchy's large territorial holdings within continental Europe. The English also were not "natural" bankers; they did not have a historical advantage in this area and their monarchy, like others, had relied on foreign financiers.

The "financial revolution" was born of a specific time period, and the pressing necessity for English economic reform in the aftermath of the Glorious Revolution. English leaders recognized that their new monarchy needed new tools of power if it was going to compete with neighbors who were growing stronger and more aggressive. English citizens, through Parliament, demanded levers to control the new monarchy and insure that it used its powers for the common good. The "financial revolution" was the most enduring outcome of the political upheavals that, in the end, transformed England's position in the world. It was neither planned nor anticipated, but it quickly became an emerging competitive advantage for England. The "financial revolution" had wider immediate effects in boosting state capacities than the new claims of political rights in England, and it provided a secure context for new political rights to gain permanence in domestic and imperial practice.

Daron Acemoglu and James Robinson appropriately call this transformation "the turning point" for the remarkable centuries-long rise in British prosperity and security. Through an empowered parliament, a consensual monarchy, an expanded banking system, and a well-regulated market for economic exchanges the "capability and capacity of the state increased in all directions."²⁰ In the eighteenth century the English government was simultaneously able to tax and spend more than ever before. The oversight of Parliament after the Glorious Revolution meant that the capital acquired by the central government was allocated for productive public investments, and the organized merchant and labor groups throughout the country insured that taxes were not too destructive to commerce. The rough balance struck in England between the

need to tax capital and encourage its investment, with government support, contributed to the development of powerful new resources for expanding wealth and security throughout the country. The “financial revolution” constituted a new set of fiscal practices that strengthened state and society in enduring ways. The “financial revolution” had two key components: credit and taxes.

CREDIT

England, according to Dickson, converted its penury into prosperity by developing the first modern system of credit. The new king, William III, and his successor Queen Anne, encouraged the formation of a vast banking sector centered in London, where men (some Jewish exiles from the continent) exchanged loans of cash for contracts on agricultural and manufactured goods that would be produced in the future. Savvy investors also traded on risk, insuring one another’s shipping and production against uncertainty, in exchange for up-front fees. England provided a stable political environment for finance capital, and government figures welcomed bankers and brokers (“jobbers”) in London. The Bank of England (founded in 1694) and the infamous South Seas Company (founded in 1711) provided government sanction for finance capital, and direct avenues for investment by international traders assembling in London.²¹

Amsterdam had been the previous European center for these activities, but late seventeenth century London quickly became a more attractive locale because of its friendly business climate, combined with greater separation from French and Spanish threats. England also had the advantage of a sizeable hinterland and extensive ocean access, with a growing Navy, financed in part by new credits. The political disunity of the United Provinces and their strategic vulnerability made them a less attractive investment hub when London opened, after the Glorious Revolution, as a welcoming alternative.²²

The capital market in what became known as the “City” created numerous opportunities for the English government to borrow more money at lower cost than ever before. This is what

made the “financial revolution” a significant geopolitical phenomenon. The crown had procured loans in prior wars at an average rate of eight percent on short-term obligations. These loans came due as soon as a war concluded, and they placed an enormous immediate burden on the monarchy, especially when wars did not produce promised profits—as was almost always the case. The cycle of war, bankruptcy, and more war that characterized seventeenth Europe was a result of recurring debt burdens. After fighting one war on credit, monarchs had to find new wars that promised to pay off their debts. The cycle thus continued.

With new capital instruments around early eighteenth century London, the English crown gained access to loans on much better terms. The state began to borrow at about three percent (rather than eight percent) on long-term (rather than short-term) obligations. These debts were denominated in bonds and other paper instruments that allowed for a pooling of capital from diverse investors, and a flexible negotiation of terms. Government obligations could be traded and re-negotiated in what became an active secondary credit market.²³

Although London bankers were mostly independent profit-seekers, they attracted more money to London than ever before, and they managed an organized and predictable system of exchange. This system made borrowing easier for families and businesses—the most important of which was the monarchy. The system also encouraged a rational allocation of resources to public and private endeavors that promised real returns, not simply glory or other illusory gains. In return for favorable terms as a respected and credible borrower, the governments of William III and his successors provided legal sanction for London credit markets and judicial enforcement of contract obligations, even those that bound the crown. Increased access to credit was accompanied by more creditable behavior, and one attribute reinforced the other.²⁴

In this credit-rich context, during the eighteenth century the crown accumulated an unprecedentedly high national debt. The large national debt was, however, easier and less costly to service than in the past. At a lower interest rate, servicing the debt required a smaller proportion of the crown’s annual budget. In a fluid market of financial instruments, the crown could also borrow readily to pay off unexpected obligations, re-finance existing debt, and re-

negotiate more favorable loan terms. The credit market in London gave the crown flexibilities that greatly strengthened its options in war and other forms of international competition.²⁵

William III and his successors allocated their borrowed capital to a series of wars in what was a period of intensive conflict and empire-building on four continents. They also invested in new institutions to manage the combination of capital and warfare that defined emerging English state power. In 1757 the crown successfully extended its rule over parts of the Indian subcontinent through the East India Company with extensive military deployments paid for on credit. In 1783, in contrast, the crown withdrew from what became the independent United States after a costly war, also paid on credit. The Indian and American wars had different outcomes, but a small island nation could fight both of them (and other costly conflicts) because of extensive credit availability.²⁶

The key point is that the English government could borrow enough money to fight these wars, despite a poor resource base, and continue to invest in basic needs at home. The wars produced mixed outcomes for English national interests, but the crown remained solvent and continued to borrow at low rates. Credit allowed England to grow at home and punch above its weight abroad. It allowed England to address major challenges, and weather the mixed results of war.

The French monarchy, in contrast, had a much larger resource base, but went bankrupt because it could not service its existing debts or borrow new money at reasonable rates. The Spanish monarchy faced a similar credit crunch. Access to credit, more than domestic resources or traditional military capabilities, determined national power in the eighteenth century. Finance forged enduring state capacity.

TAXES

Historians following Dickson have expanded our understanding of national power and state capacity beyond credit to focus on taxation. John Brewer has written about what he calls the “sinews of power” that extend into the ability of the state to mobilize capital directly from the

citizen body. The true revolution in eighteenth century England, according to Brewer, was that the crown could draw in more capital from its citizens on an annual basis, while simultaneously gaining increased allegiance from the taxed population. This was particularly striking because increased crown taxes followed the Glorious Revolution, when English parliamentarians and subjects had, in fact, overthrown a monarchy that tried to increase taxes.²⁷

Brewer argued that the genius of English power in the eighteenth century was the increased role of parliament as a taxing institution, raising revenue for the crown through mechanisms that promised more public accountability and service of the national interest. Parliament relied on increased trade tariffs, according to Brewer, but it used this taxing mechanism sparingly. Members of Parliament recognized that they wanted to encourage trade, not over-tax it. They also wanted to maintain their control over the crown through taxes that were less automatic, and required the monarch to make a direct case to the legislature, on an annual basis, about the needs and uses of tax revenue. Parliament relied heavily on excise taxes—surcharges on purchases, landholdings, and transactions—that were renewed annually to provide the crown needed revenue, but also affirmed parliamentary consent. Increased excise taxes raised capital from the population, and they gave the population more say in policy through the annual debates in Parliament.²⁸

Propertied male citizens paid more to the state, but they felt empowered to believe that the state would be more responsive to their needs. Taxation was not a tribute to the monarch; it was now a contract between the governors and the governed. In this contractual arrangement, the English state could tax more in the common defense than most of its peer competitors. And, in fact, it did that throughout the eighteenth and nineteenth centuries. Brewer described this phenomenon as both the triumph of democracy and the rise of the “fiscal-military state.” These were mutually reinforcing developments.²⁹

From the perspective of creditors, the new tax regime in England made the state a more attractive borrower. Bankers believed that the state had the capacity to raise internal revenue, when necessary, to service loans. Bankers also recognized that parliamentary consent limited the

adventurism of the crown, encouraging wise investments of borrowed capital and less waste. Most of all, the tax regime gave everyone an interest in the growth of English national power. If the crown fought and won its wars at low cost, creditors would profit and citizens would pay less tax. If the crown squandered its resources, the pain would be distributed among citizens and creditors alike. Taxation gave credit a firm foundation in national consent, rather than elite whims.

National power for Dickson, Brewer, and the many historians who have followed their lead was constituted by the deep connection between credit and taxation. National power was the state's capacity to raise money for weapons, investments, and trade. National power was about processes of *resource procurement and management by government*, not aggregate resource production. Money required territory and goods for trade, but it also mattered more than either or both together.

France had a much larger gross domestic product than England in the eighteenth century. France had a much larger army. France also had a greater basic resource endowment. Those attributes did not give the Parisian government the upper hand against a small, weaker, and poorer England. The government in London outstripped Paris because it had easier access to money raised on credit markets and taxed from its population. The capacity to raise money through a centralized government meant more than anything else.

During the Napoleonic Wars of the late eighteenth and early nineteenth centuries, when Britain's security was most imperiled by a massive French army rolling over the European continent and an attempted French naval blockade of the British Isles, the London government was able to tax its population more than any of its peers. A succession of prime ministers used that domestic capital to finance, often through direct foreign subsidies, a coalition that ultimately defeated Napoleon's dominant military juggernaut. Britain financed the victory in a way that none of the other richer European states could at the time. London was remarkably effective at converting taxes and credits into guns and subsidies over more than two decades of prolonged warfare.³⁰

The state's capacity to raise money was the foundational source of national power. In these terms, no one had a better system for producing power capacities than England in the eighteenth and nineteenth centuries. The English borrowed more than their peers, and they paid more taxes than most of their peers. They raised the capital to exert international power with a consistency and a geographical breadth that no one with lesser financial capabilities could match. This was quite an achievement for a small, wet island near so many bigger states.³¹

GENTLEMANLY CAPITALISM, EMPIRE, AND THE GREAT WAR

Until the First World War the English processes of credit and taxation fueled the growth of empire. Historians P.J. Cain and A. G. Hopkins, in what is now the authoritative history of British imperialism, document how finance centered in London gave the crown and its leading representatives the ability to maintain a dominant Navy, a profitable global trading system, a far-flung land empire, and a universally respected currency. Even as late as 1914, the British could borrow more money at less cost than any other society. Great Britain also had a citizen body that paid high taxes, and accepted limits on domestic consumption for the sake of managing a worldwide empire. Over two centuries, the British financed growing state capacities more efficiently than any of their peers.³²

Cain and Hopkins remind us that British power did not turn on the Industrial Revolution or the experience of military prowess at sea, as some have claimed. The British could lead in these two areas because they had the best finances for technology, training, and production. Britain's comparative advantage was fundamentally financial, and it was self-reinforcing in a way that industrial and military advantages were not. Other states—France, Germany, Russia, Japan, and the United States—caught up to British production and military capability at times. They could *not* supersede the accumulated credibility that London had established as the safest, most creative, and most attractive financial center in the world. The money flowed most freely to London from home and abroad, and the crown deployed that capital as no one else could. Cain and Hopkins aptly call this the triumph of “gentlemanly

capitalism”—the fusion of sophisticated finance with a landed elite that was willing to work with the market to maximize state capacity.³³

The Glorious Revolution empowered the gentlemanly capitalists around Parliament and the court of the new king. The First World War, however, destroyed the gentlemanly capitalists and their effective processes of credit and taxation. Fighting for four years at unprecedented cost, Britain ran out of credit. By 1918 London could no longer borrow at affordable rates from the United States and other capital markets. The center of global finance shifted from London to New York. The bloody nature of the war also smothered the British tax base. The most able-bodied citizens—including the gentlemanly capitalists—gave their lives on the battlefields of Northern Europe. Britain lost the citizens in war who had paid the high taxes that had financed the empire.³⁴

England’s rise and fall as a global power was about the rise and fall of English finance, more than anything else. Credit and taxation were the essential instruments of power, as Brewer has argued. Efficient and attractive processes for credit and taxation, developed around late seventeenth century London, fueled the state capacities that the crown deployed for naval strength, imperial conquest, extended warfare, and economic gain. Efficient and attractive processes for credit and taxation turned a small island into a world power. When these processes crashed in a long and destructive total war, they reduced British world power to second-rate status. After 1914 Britain lacked the capacity to finance its global role. For the next century, it needed the financial (and military) assistance of the United States, as never before.

QING CHINA’S FAILED MODERNIZATION

In the late nineteenth century China faced a series of strategic challenges on an even larger scale than Great Britain. The empire that had dominated the Asian mainland for at least five hundred years suffered from military and political vulnerabilities that imperiled its basic security. Great Britain, France, Germany, Japan, and to a smaller extent the United States, were carving up pieces of Chinese territory. The external powers formed an archipelago of “concession

areas” that they controlled in and around the Chinese Pacific coastline. The foreign powers grabbed these territories through the use of superior military technology, organized economic incursions, and forceful political intervention.³⁵

British seizure of Hong Kong after the “First Opium War” of 1839-42 was an extreme example of how other countries demanded access to the Chinese market for their exports, with special “extraterritorial” protection for foreign workers, control over local policing, and the imposition of foreign law.³⁶ The United States even created a federal district court in the early twentieth century to adjudicate legal disputes in American-controlled parts of China.³⁷ In the case of Japanese-controlled areas, Tokyo pursued brutal settlement policies designed to eliminate local Chinese populations and replace them with Japanese colonists. This was a “century of humiliation” as remembered in Chinese historical accounts today.³⁸

From the early twentieth century to the present, Chinese and foreign observers have blamed the weakness of the Middle Kingdom on the obvious failings of the Qing regime. First, writers have pointed to the tradition-bound nature of Chinese society, with a bureaucracy still built around mastery of Confucian texts and an economy dominated by conservative landed elites. Second, observers have emphasized the isolationist and ethnocentric qualities of Qing China. According to William H. McNeill and others, these qualities discouraged innovation and growth at a time when Japan and the West were, in contrast, mobilizing innovation and growth for the purposes of state power.³⁹ Third, and perhaps most obvious, commentators have argued that the Qing dynasty entered a period of rapid decline as the imperial family became progressively isolated and ill-equipped for managing the complex pressures that accompanied a more competitive international system.⁴⁰

Bernardo Bertolucci’s stunning film, “the Last Emperor,” captures this last point with memorable scenes of the final child monarch, Pu Yi, struggling to understand modern society as his state crumbles around him. Pu Yi spent some of the last years of his life in a communist prison camp. He symbolized the end of an old, tradition-bound China. Mao Zedong’s government released Pu Yi from prison in 1959 after he renounced his own family and embraced

the new world order of the Chinese Communist Party. Mao Zedong's government was catastrophic in the death and destruction that it spread, but it was modern, internationalist, and vigorous in all the ways that the late imperial regime was not. The failure of a backward-looking, isolated, and leaderless China inspired a nightmare of the opposite qualities, according to the conventional wisdom articulated by Bertolucci and so many other observers.⁴¹

There is, of course, some truth to this depiction. There is also a lot that is misleading in this standard account. Odd Arne Westad's recent study of Chinese society persuasively argues that Qing China was filled with many modernizing, cosmopolitan, and capable figures who worked to reform the Chinese state and economy in parallel with their counterparts in Europe and Japan. Westad shows how diverse and international figures brought a creative mix of ideas and policy proposals to a frequently receptive regime. Westad claims that Qing China was a dynamic "hybrid" society, not the isolated, tradition-bound, self-enclosed kingdom of retrospective depictions. China's "backwardness" is largely a *post hoc* explanation for the chaos and collapse of the twentieth century, and the rise of the Mao's Chinese Communist Party.⁴²

The evidence for this historical revisionism about China is overwhelming. Historians have analyzed the dynamic and promising efforts at "self-strengthening" in China during the second half of the nineteenth century, led by impressive figures like Li Hongzhang, Liang Qichao, Li Dazhao, and many others. These men had traditional credentials as Confucian scholars, but they also studied foreign ideas (especially through education in Japan) and brought them into Chinese policy discussions. Li Hongzhang, in particular, led Qing efforts to reduce opium abuse, improve general literacy, modernize military training, and negotiate effective alliances with foreign powers—especially Russia and the United States. Li was the first Chinese official to visit St. Petersburg and Washington D.C. in 1896. He met with U.S. President Grover Cleveland to discuss enhanced Sino-American economic and political cooperation, and he allegedly introduced chop suey to New York City audiences.⁴³ Li Hongzhang, Lian Qichao, and Li Dazhao were part of a growing group of self-conscious international modernizers with a wide following in late Qing China.⁴⁴

Figure 4.1: Li Hongzhang, during his visit to the United States in 1896.

[This figure cannot be reproduced here due to limitations in the agreement with the Museum of the City of New York. [The photograph can be viewed online here.](#)]

Jung Chang has recently published an impressive biography of Empress Dowager Cixi, who largely controlled the Chinese imperial regime through a series of young and ill Emperors, during the four decades after 1861. Drawing on a wealth of newly accessible Chinese documents, Chang depicts Cixi as an astute and cagey modernizer, encouraging men like Li Hongzhang to learn from the West and reform antiquated Chinese educational, military, and business institutions. During Cixi's reign, Chinese international trade grew and the Empress imported foreign experts, most famously Robert Hart, to manage this process. Chang shows how the duties on foreign trade, collected by Cixi, allowed her to finance other modernizing activities that ran against the interests of the established mainland families and bureaucracies.⁴⁵

Empress Cixi's nearly fifty years of power—roughly parallel to Queen Victoria in Great Britain—clearly affirm that Chinese leaders were not necessarily tradition-bound or “behind” their counterparts in other countries. They were, in some ways, more advanced in their intellectual sophistication and their efforts to bridge the old with the new. Li Dazhao, for instance, helped to found the Chinese Communist Party through a small study group that articulated a vision of peasant transformation and nationalist assertion. Li Dazhao and his fellow communists, including young Mao Zedong, were easily as sophisticated and forward-looking as Woodrow Wilson, Vladimir Lenin, and Benito Mussolini.⁴⁶

The chief hindrance confronting the Chinese modernizers was the absence of state capacity. Their ideas floated through Chinese society without a strong set of institutions on which they could rely for practical implementation. Compared to the states of Western Europe, Russia, Japan, and the United States, Qing China had the weakest institutions of governance. For all the pomp and circumstance surrounding the Emperor as the “Son of Heaven,” he reigned but he hardly ruled.

During the late nineteenth and early twentieth centuries, China suffered from ineffectual state institutions. Many parts of mainland China, along the coast and within the interior, were largely ungoverned by a central administration between 1912 and 1949. This fact explains the survival of Mao's Communist Party as an insurgent force, despite decades of effort by the Guomindang regime and Japanese invaders to crush it.⁴⁷

The weaknesses of the Chinese state were structural and historical. The Qing imperial court had very limited revenue-generating authority. It had massive accrued wealth in land and jewels, but few mechanisms for annual taxation. The Emperor could collect trade tariffs, but even these were difficult to enforce when many coastal trade ports cut their own deals with foreign shippers and businesspeople. In fact, precisely when Empress Cixi turned to trade tariffs as a new revenue-generator, political turmoil gave local figures more leverage to assert their own decentralized control over exchanges with foreigners. During the second-half of the nineteenth century, the Emperor lacked the policing power, institutional reach, or public legitimacy to demand that merchants and officials pay the central government for the right to trade.

These were governing powers the Emperor never possessed in the recent past. They were nearly impossible to create in a time of increasing state fragmentation. Although the Emperor continued to receive tribute as the titular leader of China, his receipts paled in comparison to the revenue-generation of trade for other central governments at the time, especially Japan and the United States.⁴⁸

QING TAXES

The Chinese central government had relied for at least a century on a very low and unchanging land tax. That was the main source of annual revenue for the imperial regime. The Emperor also maintained a small tax on salt, and he received tribute from wealthy families, traders, and foreign representatives who approached the Middle Kingdom with decreasing deference. Tax extraction, as a whole, was very low. State institutions for regulating wealth and procuring resources from the public were weak and ineffectual. By the second half of the

nineteenth century, the Emperor's reach was highly constrained, and his authority over the country's economy was more symbolic than real.

In some interior regions, local families and officials controlled fiscal resources. In many coastal areas, foreign groups increasingly dominated economic decisions and revenue allocations. In marked comparison to the "fiscal-military state" that evolved in eighteenth century Great Britain, Qing China devolved into a hollow and bankrupt state in the nineteenth century as it sought to modernize from the center without sufficient mechanisms for extracting resources from the coasts and hinterlands. As Daron Acemoglu and James Robinson explain, nations with traditionally strong leaders who lack effective institutions for investing resources are bound to fail, often precipitously.⁴⁹

Although the taxes and tribute added to the Emperor's riches, they offered little capital for building a modern military or investing in domestic economic development. Even in earlier centuries of Qing power, the central government had operated with little capital. In war and in peace, the Emperor's presence in China was powerful, but his direct control over resources was very limited. Qing China had impressive rulers but emasculated institutions for doing anything more than maintaining the status quo. The primary limitations did not come from Chinese traditions, which were largely adaptable, but from Chinese governing institutions which were capital poor.⁵⁰

The "self-strengtheners," of the late nineteenth century, like Li Hongzhang, learned this hard lesson when they tried to create an advanced military, along with modern schools and factories. Li had political authority and support from the central government, but he did not have the money to pay the army, hire the teachers, and build the factories that he sought for China. He faced resistance from the established bureaucrats who had access to the few available government resources. Li could not buy them off, and he could not hire a new governing corps to supplant the established officials. In contrast to the more intrusive Meiji regime in Japan, the Qing state did not have the internal reach it needed to mobilize the country's vast resources for

centralized development. The failure of Qing China was the failure to become sufficiently extractive.⁵¹

Historian Huaiyin Li has shown that in the seventeenth and eighteenth centuries the low taxes of the Qing regime produced enough revenue to cover the small costs of maintaining the state and fighting border wars in the East. The central government, in fact, had a surplus of reserves until the end of the eighteenth century. Tribute from citizens and neighbors provided additional resources and assured stability in a Sino-centric regional order. The Emperor asserted his authority as a symbol and a broker, rather than a dynamic state ruler. Foreign threats to Chinese territorial integrity were not significant in the seventeenth and eighteenth centuries.⁵²

The nineteenth century brought a crisis of governance as Chinese citizens and neighbors began to demand more from the Emperor and the state. The Chinese population grew rapidly, especially in poor rural areas. With more pressure on the land, landholders had trouble paying their taxes to the state. Local authorities looked to the central government, as they had not before, to maintain basic order. This was especially true as a series of popular revolts spread across the mainland. The longest and most devastating of these revolts was the Taiping Rebellion, which over the course of 15 years (1850-64) resulted in more than 20 million deaths!⁵³

The Emperor had to pay for costly military forces to put down these rebellions as he also built new defenses against the foreign incursions on the Pacific coast. Modernizers like Li Hongzhang simultaneously demanded government capital for new military academies, basic infrastructure, law enforcement, and diplomatic activity. By the middle of the nineteenth century, the revenue-constrained Chinese Emperor could not possibly cover the multiplying demands on his treasury. The central government lacked money and it did not have an institutional mechanism for raising new capital. If anything, the old processes for land taxation and imperial tribute were producing less revenue just when the Emperor needed so much more. The Chinese state was in crisis because it lacked sufficient taxing power.⁵⁴

QING CREDIT

Unlike Great Britain (which also faced tax deficiencies in the late nineteenth century), the Chinese Emperor could not borrow money. The Qing court refused to participate in the standard practices of international banking: transparent accounting, commitment of collateral, and promise of contract. The Emperor's legitimacy as the "son of heaven" meant that he was above these worldly agreements. Holding the Emperor to contract—through bonds or other loans—was not possible because he did not acknowledge accountability to any secular institutions or groups. Chinese Emperors did not engage in market commerce; they lived in a world of tribute and gift-giving. In the terms of anthropologists, the financial economy of credit contradicted the moral economy of imperial beneficence.

Despite their efforts to imitate foreign economies, the Chinese modernizers failed to create a banking system that would attract capital. They made very little progress in building new financial institutions or practices. Foreign capital came into China for railroads, shipping, and some manufacturing, but investors held tight control over their capital because they did not trust local institutions to manage finances in a credible and competent way. In many cases, established Chinese financial institutions could not even process the new quantities of currency and other investment coming into the mainland in highly decentralized ways after the Opium Wars.⁵⁵

Foreign investors had no reason to invest in government bonds or other instruments for public finance used so frequently by Great Britain and other European states at the time. China benefited from enormous cash remittances flowing back to the mainland from workers overseas, but this money also stayed within tightly controlled family networks. Foreign remittances were private. They lacked a public market for credit, or even public savings.⁵⁶

The only available source of cash for the Emperor was, ironically, the sale of the Chinese territory that he sought to protect. From the time of the First Opium War in the 1840s he began ceding land to wealthy families and foreign powers in return for payments and promises of security. The Emperor used land as his only reliable source of credit. There was a severe limit, of course, to the amount of land the Emperor could convert to capital when his highest goal was to

control, not cede, Chinese territory. The dense Chinese population also made land transfers of any kind incredibly difficult.

The modernizers tried to use land capital to strengthen the state, but the method of acquisition discouraged productive investments. If territorial concessions were the most lucrative source of money, then it made sense to refrain from territorial investments and export capital instead. Short of money at home, the Chinese quickly found that their territorial deals encouraged an increase in capital flight. Appeasement of foreign powers was not a viable financial strategy in this context.

QING COLLAPSE

The complete financial collapse of the Chinese state in 1911 marked the end of the Qing dynasty. Pu Yi and the imperial family had gone bankrupt, they could not raise new money, and they could not command basic loyalty from the population. None of the foreign powers were willing to loan the last Emperor enough money for the survival of his government. He was a ruler who still commanded the awe of many citizens, but he had lost all of the financial tools that were necessary to convert status into governing power. Pu Yi's financial fall left a political vacuum throughout society.

During the next four decades, different groups of domestic strongmen and foreign actors struggled for control of the Chinese mainland. They established small “warlord” areas of authority where they could finance institutions of local governance. The Guomindang, under the leadership of Sun Yatsen and then Chiang Kai-Shek, relied largely on the seizure of local resources and aid from both the United States and the Soviet Union, especially during the Second World War. The Chinese Communists, under Mao Zedong, implemented their strategy of peasant mobilization, encouraging local citizens to join a popular effort to nationalize all wealth in a people's party. Mao's strategy succeeded, in the years after 1945, because it provided a firm basis in local peasant revenue to finance a revolution. Mao and the Chinese Communist

Party had more consistent access to domestic capital than the better armed, but bankrupt, Guomindang.⁵⁷

Looking back two hundred years from the day the Chinese Communists seized Beijing on October 1, 1949, there was little reason to believe that the government in Great Britain would survive while the one in China would come to such dismay. Both states faced growing external threats, and both states had difficult domestic challenges. Both states were in decline by the last decades of the nineteenth century. Great Britain survived because it could continue to rely on effective inherited systems of taxation and credit. Qing China disintegrated because it could not tax sufficiently and it could not raise credit. Financial capabilities were the margin of difference between survival and defeat. Financial capabilities were the crucial hinges of state power in the cut-throat competition of early twentieth century international politics.

THE UNITED STATES SINCE 1941

Mobilizing for war on two fronts amidst the after-effects of the worst economic downturn in American history, the United States benefited from the exact state capacities that Qing China lacked a half-century earlier. The United States had strong and active state institutions, furthered beyond precedent by the expansion of the federal government through various New Deal programs. The United States also had a chief executive who was willing and able to manipulate the capacities of the strong American state for clear purpose.⁵⁸

President Franklin Roosevelt did not command a large experienced military in 1941. He did not have a rapidly growing domestic economy from which to draw needed resources. Above all, he did not have a firmly united population, committed to a common vision of international change. President Roosevelt had one primary source of power: the ability to raise credit and to tax. He did not have surplus cash in the treasury in December 1941, but he could rapidly borrow money and increase domestic revenues for the purpose of preparing for war. Roosevelt could also borrow and tax to re-allocate capital from peacetime consumption to war production.

Within a few short years, the laggard post-Depression American economy became a dynamic engine of growth because of the wartime capital borrowed, taxed, and re-deployed by the U.S. government. The fascist regimes in Germany, Japan, and Italy also mobilized capital to finance their wars, but they could not borrow as cheaply as the United States and they had much smaller tax bases at home. By the early 1940s, they had already drawn out much of the domestic wealth in their societies for foreign military purposes. As a consequence, Germany, Japan, and Italy had to look to conquered territories for resources, while the United States could build efficiently from within.⁵⁹

Between 1942 and 1945 the American position strengthened as Washington drew more aggressively on its financial capacities. In contrast, the economies of the fascist states precipitously declined as they ran out of financial capacities. Effective American borrowing and taxation allowed for the gargantuan spending that underpinned the successful democratic war effort. There could be no “Four Freedoms” without strong state-run finance. The American ability to attract and mobilize money won the war.⁶⁰

The same was true for much of the Cold War. Historians have noted that despite the anti-statist ideology of American rhetoric after 1945, citizens paid higher personal taxes than ever before and they authorized the federal government to borrow more than ever before as well. Presidents from Dwight Eisenhower to Ronald Reagan lamented the growth of government, but they consistently added to the revenue-generating capacities of the American state for the purpose of building weapons, assisting allies, investing in infrastructure, and supporting poor and aging American citizens. The ingenuity and expansion that allowed the United States to defeat the Soviet Union took trillions of dollars, raised and spent by Washington D.C. The wealth creation that greatly improved standards of living from the era of the Depression took trillions of dollars, also raised and spent by Washington D.C.⁶¹

No other government raised as much capital as the U.S. government during the Cold War. Washington could do this because it had institutional capacities that allowed for effective taxation on personal incomes and business profits. Washington could also borrow easily and

cheaply because the United States attracted so many investors, and because the American banking system inspired more trust than any other. After the United States abandoned the Bretton Woods system of fixed currency exchanges in 1971, people around the world continued to hold dollars and treasury bills, considering them “as good as gold” because the American financial system stood behind them. As in the Second World War, financial resources and management constituted the core of American strength in the Cold War. The Soviet Union could never compete in this area.⁶²

Since 1991 the United States has remained a beneficiary of seemingly endless capital investment at very low interest rates. Under Presidents George H.W. Bush and Bill Clinton the United States increased its tax collections to allow additional domestic and international spending, as well as balanced budgets. When the terrorist attacks of 11 September 2001 occurred, the United States was in a very strong position to take on vast new spending obligations for security, assistance (domestic and foreign), and warfare. Americans were able to affirm all of these new obligations without any diminishment in their consumption. The strength of American finance underpinned expansive “guns and butter” policies in the early twenty-first century.

The challenge after the Great Recession of 2008 is continuing to finance all of these obligations. Even with necessary fiscal austerity and strategic retrenchment, the United States will still maintain costly domestic and international obligations for the foreseeable future. The security threats (traditional and non-traditional), the domestic demographics, and various popular political commitments point toward more spending, not less. American power will continue to rely deeply on finance—on the capacity of the United States government to borrow and spend efficiently.

The key question for current policy-makers, therefore, is whether we are nurturing the correct financial capacities. This is *the* vital national security question. Does our current system of taxation allow for the appropriate revenue streams to finance our national power? Does our system of budgeting protect our access to capital at low borrowing costs?

CONTEMPORARY IMPLICATIONS

Too much of our current debate in the United States focuses on questions of austerity: what should we cut? Frugality is a definite virtue, but the historical record does *not* tell us that penny-pinching and power are one-and-the-same. They often are not. The secret to sustaining national power since the eighteenth century has revolved around finding low cost capital to spend on more things. That was the English strategy after the Glorious Revolution and the American strategy after the Great Depression. Qing China and the Soviet Union failed because they could not do the same.

Powerful states grow, innovate, and expand because they raise the money to do more. Declining states are the ones that run out of money and start doing less. Low taxes and small deficits are not the historical formulas for continued national power. Taxing more to buy more security and growth, and borrowing more to increase productive investment—those are processes that have seeded national power in the past.

The historical record does not offer license to legislate smothering taxes or carry crippling debts. Just the opposite: profligate taxing, borrowing, and spending can rapidly ruin a country's credit and corrupt its values. The historical record does, however, warn against the seductive assumption that taxing less and borrowing less are necessarily good things. The alternative to too much tax is not tax-free living. The alternative to too much borrowing is not an avoidance of credit. The correct balance involves adequate taxation and borrowing to increase the capacities of a society. Doing less undermines national power in the long-run.

National power is fundamentally financial. National power requires more money, not less. The strongest states are the ones that use their capacity to tax and borrow for dynamic purposes—not empty clichés about frugality, freedom, or social justice.

¹ For one of the most thoughtful and influential books on the subject, see Joseph S. Nye, Jr., *The Future of Power* (New York: Public Affairs, 2011), especially chapter 1. For one of the most insightful analyses of international politics that remains anchored in the concept of power as a fixed and ahistorical quantity, see John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001).

² William H. McNeill's writings remain the best on this topic. See: *The Pursuit of Power: Technology, Armed Force, and Society since A.D. 1000* (Chicago: University of Chicago Press, 1982).

³ See Paul M. Kennedy, *The Rise and Fall of British Naval Mastery*, Second Edition (Amherst, NY: Humanity Books, 1998).

⁴ See Geoffrey Parker, *The Grand Strategy of Philip II* (New Haven: Yale University Press, 1998); John H. Elliott, *The Count-Duke of Olivares: The Statesman in an Age of Decline* (New Haven: Yale University Press, 1986).

⁵ See T.E. Lawrence, *Seven Pillars of Wisdom: The Complete 1922 Text* (Blacksburg, Virginia: Wilder Publications, 2011).

⁶ See David Halberstam, *The Best and the Brightest* (New York: Ballantine Books, 1969). For a sophisticated and provocative elaboration on Halberstam's thesis, see Robert D. Dean, *Imperial Brotherhood: Gender and The Making of Cold War Foreign Policy* (Amherst: University of Massachusetts Press, 2001). For a close study of how "the best and the brightest" viewed Indochina before the escalation of American intervention, see Fredrik Logevall, *Embers of War: The Fall of an Empire and the Making of America's Vietnam* (New York: Random House, 2012).

⁷ See Rajiv Chandrasekaran, *Little America: The War Within the War for Afghanistan* (New York: Alfred Knopf, 2012); Seth G. Jones, *In the Graveyard of Empires: America's War in Afghanistan* (New York: W. W. Norton, 2009).

⁸ See Joseph S. Nye, Jr., *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2005). For a thoughtful set of essays that engage "soft power" as a theoretical concept and an empirical phenomenon, see Inderjeet Parmar and Michael Cox, eds., *Soft Power and U.S. Foreign Policy: Theoretical, Historical, and Contemporary Perspectives* (London: Routledge, 2010).

⁹ See Victoria de Grazia, *Irresistible Empire: America's Advance through Twentieth Century Europe* (Cambridge, Mass.: Belknap Press of Harvard University Press, 2005).

¹⁰ Books on this topic have clever and seductive titles that, in some cases, substitute for serious analysis of policy and social change. See Robert W. Rydell and Rob Kroes, *Buffalo Bill in Bologna: The Americanization of the World, 1869-1922* (Chicago: University of Chicago Press, 2005); Reinhold Wagnleitner, *Coca-Colonization and the Cold War: The Cultural Mission of the United States in Austria After the Second World War* (Chapel Hill: University of North Carolina Press, 1994).

¹¹ See the classic work by Alexis de Tocqueville: *The Old Regime and the French Revolution*, trans. Stuart Gilbert (New York: Random House, 1983). For an application of Tocqueville's ideas to the Cold War, see Jeremi Suri, *Power and Protest: Global Revolution and the Rise of Détente* (Cambridge, Mass.: Harvard University Press, 2003).

¹² See Laurent Dubois, *Avengers of the New World: The Story of the Haitian Revolution* (Cambridge, Mass.: Harvard University Press, 2004).

¹³ The classic work on this topic is: Bernard Bailyn, *The Ideological Origins of the American Revolution* (Cambridge, Mass.: Belknap Press of Harvard University Press, 1967). See also Gordon S. Wood, *The Radicalism of the American Revolution* (New York: Random House, 1991).

¹⁴ For an early and useful survey of scholarly interpretations of the Arab Spring, see Kenneth M. Pollack, Daniel L. Byman, et. al., *The Arab Awakening: America and the Transformation of the Middle East* (Washington D.C.: Brookings Institution Press, 2011).

¹⁵ On this point, see the classic works by Robert Gilpin: *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987); *Global Political Economy: Understanding the International Economic Order* (Princeton: Princeton University Press, 2001). See also Niall Ferguson, *The Cash Nexus: Money and Power in the Modern World, 1700-2000* (New York: Basic Books, 2001).

¹⁶ Paul Kennedy's foundational work examines this history in depth, affirming the fundamental importance of sound finance for the sustenance of great powers. Kennedy shows that nations can grow and expand without sound finance, but they cannot sustain that growth and expansion if they confront domestic capital shortages due to burdensome foreign military and occupation expenses. See Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987), especially xv-xxv, 73-139. See also Paul Kennedy, ed., *Grand Strategies in War and Peace* (New Haven: Yale University Press, 1992).

¹⁷ This paragraph draws upon a number of notable studies, including: Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown, 2012); Ian Morris, *Why the West Rules—For Now: The Patterns of History and What They Reveal About the Future* (New York: Farrar, Straus, and Giroux, 2010); David S. Landes, *The Wealth and Poverty of Nations: Why Some are So Rich and Some So Poor* (New York: W.W. Norton, 1998); Jared M. Diamond, *Guns, Germs, and Steel: The Fates of Human Societies* (New York: W.W. Norton, 1997).

¹⁸ For recent representative works, see Kenneth N. Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979); Alexander Wendt, *Social Theory of International Politics* (New York: Cambridge University Press, 1999); G. John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton: Princeton University Press, 2011).

¹⁹ See P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756* (London: St. Martin's Press, 1967).

²⁰ Acemoglu and Robinson, *Why Nations Fail*, 196.

²¹ Dickson, *The Financial Revolution in England*. For a more recent elaboration of Dickson's argument, see Carl Wennerlind, *Casualties of Credit: The English Financial Revolution, 1620-1720* (Cambridge, Mass.: Harvard University Press, 2011). Wennerlind gives more emphasis than Dickson to the role of state-sanctioned violence in the enforcement of credit in seventeenth century England.

²² See Kennedy, *The Rise and Fall of the Great Powers*, 76-86.

²³ Ibid.

²⁴ See Wennerlind, *Casualties of Credit*, chapters 3 and 4.

²⁵ See Kennedy, *The Rise and Fall of the Great Powers*, 76-86.

²⁶ See *ibid.*, 86-139.

²⁷ See John Brewer, *The Sinews of Power: War, Money, and the English State, 1688-1783* (Cambridge, Mass. Harvard University Press, 1990).

²⁸ Brewer has a brilliant chapter on the debates about excise taxes and parliament's role. See *The Sinews of Power*, 137-61.

²⁹ *Ibid.*, esp. 167-217.

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- ³⁰ The seminal work on British finance and the Napoleonic Wars is John M. Sherwig, *Guineas and Gunpowder: British Foreign Aid in the Wars with France, 1793-1815* (Cambridge, Mass.: Harvard University Press, 1969), esp. 345-56.
- ³¹ On the extraordinary achievements of British power, despite its limited domestic resource base, see John Darwin, *The Empire Project, The Rise and Fall of the British World-System, 1830-1970* (Cambridge: Cambridge University Press, 2009).
- ³² See P.J. Cain and A.G. Hopkins, *British Imperialism, 1688-2000*, Second Edition (London: Longman, 2001).
- ³³ See the seminal articles by P.J. Cain and A.G. Hopkins: “The Political Economy of British Expansion Overseas, 1750-1914,” *The Economic History Review* 33 (November 1980), 463-90; “Gentlemanly Capitalism and British Expansion Overseas I: The Old Colonial System, 1688-1850,” *The Economic History Review* 39 (November 1986), 501-25; “Gentlemanly Capitalism and British Expansion Overseas II: New Imperialism, 1850-1945,” *The Economic History Review* 40 (February 1987), 1-26. For a detailed critique of the “gentlemanly capitalism” concept, see Andrew Porter, “‘Gentlemanly Capitalism’ and Empire: The British Experience since 1750?” *The Journal of Imperial and Commonwealth History* 18 (June 1990), 265-95.
- ³⁴ See Kennedy, *The Rise and Fall of the Great Powers*, 194-274; Niall Ferguson, *The Pity of War: Explaining World War I* (New York: Basic Books, 1998), chapters 5, 9, and 14.
- ³⁵ See John King Fairbank, *The Great Chinese Revolution, 1800-1985* (New York: Harper and Row, 1986).
- ³⁶ The classic study of this history remains, John King Fairbank, *Trade and Diplomacy on the China Coast: The Opening of the Treaty Ports, 1842-1854* (Cambridge, Mass.: Harvard University Press, 1964).
- ³⁷ See Eileen P. Scully, *Bargaining with the State from Afar: American Citizenship in Treaty Port China, 1844-1942* (New York: Columbia University Press, 2001).
- ³⁸ See Louis Young, *Japan’s Total Empire: Manchuria and the Culture of Wartime Imperialism* (Berkeley: University of California Press, 1998).
- ³⁹ See William H. McNeill, *The Rise of the West: A History of Human Community* (Chicago: University of Chicago, 1991 edition).
- ⁴⁰ See Frederic Wakeman, Jr., *The Fall of Imperial China* (New York: Free Press, 1977).
- ⁴¹ See Bernardo Bertolucci, Director, “The Last Emperor,” released by Columbia Pictures in October 1987. For background on the film and various interpretations, see Bruce H. Sklarew et al., eds., *Bertolucci’s The Last Emperor: Multiple Takes* (Detroit: Wayne State University Press, 1998). Many scholars of China have pointed to the “Republican” period—between the fall of the Qing Empire in 1912 and the victory of the Communist Party in 1949—as a lost opportunity for more open, stable, and sustainable Chinese economic and political development. See Frank Dikötter, *The Age of Openness: China before Mao* (Berkeley: University of California Press, 2008); Brett Sheehan, *Trust in Troubled Times: Money, Banks, and State-Society Relations in Republican Tianjin* (Cambridge, Mass.: Harvard University Press, 2003); Frederic Wakeman, Jr. and Richard Louis Edmonds, eds., *Reappraising Republican China* (New York: Oxford University Press, 2000).
- ⁴² See Odd Arne Westad, *Restless Empire: China and the World Since 1750* (New York: Basic Books, 2012). Jonathan Spence makes a similar argument in his magisterial account: *The Search for Modern China*, Third Edition (New

York: W.W. Norton, 2012). See also Mary C. Wright, *The Last Stand of Chinese Conservatism: The Tung-chi Restoration, 1862-1874* (Stanford: Stanford University Press, 1957).

⁴³ Daniel B. Schneider, "The Origins of Suey," *New York Times* (6 May 2001). Available at: <http://www.nytimes.com/2001/05/06/nyregion/fyi-150452.html>.

⁴⁴ Although it is frequently ignored in discussions of nineteenth century China's alleged "backwardness," the literature on the influence of the Chinese modernizers is enormous. For some of the seminal works see: Wright, *The Last Stand of Chinese Conservatism*; Michael H. Hunt, *The Making of a Special Relationship: The United States and China to 1914* (New York: Columbia University Press, 1983); Vera Schwarcz, *The Chinese Enlightenment: Intellectuals and the Legacy of the May Fourth Movement of 1919* (Berkeley: University of California Press, 1990); Xiaobing Tang, *Global Space and the Nationalist Discourse of Modernity: The Historical Thinking of Liang Qichao* (Stanford: Stanford University Press, 1996); Pankaj Mishra, *From the Ruins of Empire: The Intellectuals Who Remade Asia* (New York: Farrar, Straus, and Giroux, 2012), chapter 3.

⁴⁵ See Jung Chang, *Empress Dowager Cixi: The Concubine Who Launched Modern China* (New York: Alfred Knopf, 2013). For more on Robert Hart's role in Chinese trade and modernization, see Richard J. Smith, John K. Fairbank, and Katherine F. Bruner, eds., *Robert Hart and China's Early Modernization: His Journals, 1863-1866* (Cambridge, Mass.: Harvard East Asian Studies Center, 1991).

⁴⁶ See Maurice J. Meisner, *Li Ta-chao and the Origins of Chinese Marxism* (Cambridge, Mass.: Harvard University Press, 1967); Arif Dirlik, *The Origins of Chinese Communism* (New York: Oxford University Press, 1989).

⁴⁷ On this point, see the classic account by Edgar Snow: *Red Star Over China* (New York: Random House, 1944). See also William Hinton, *Fanshen: A Documentary of Revolution in a Chinese Village* (Berkeley: University of California Press, 1966).

⁴⁸ The United States, in particular, benefited from a large federal budget surplus in the 1880s due to federally-enforced tariffs on expanding international trade. See Douglas A. Irwin, "Higher Tariffs, Lower Revenues? Analyzing the Fiscal Aspects of the 'Great Tariff Debate of 1888,'" National Bureau of Economic Research, Working Paper 6239 (October 1997), available at: <http://www.nber.org/papers/w6239>.

⁴⁹ Acemoglu and Robinson, *Why Nations Fail*, esp. 368-403.

⁵⁰ This is one of the central points of Arthur Waldron's brilliant efforts to uncover the myths of the Great Wall of China and the state that allegedly built it. See *The Great Wall of China: From History to Myth* (Cambridge: Cambridge University Press, 1992).

⁵¹ For the best account of Qing China's financial and institutional weaknesses for pursuing a modern agenda, especially in contrast to Meiji Japan, see Wright, *The Last Stand of Chinese Conservatism*. Michael Hunt describes how some Chinese "self-strengtheners," especially Li Hongzhang, looked to the United States for assistance. See Hunt, *The Making of a Special Relationship*. Li sought to build partnerships with the United States, but he had no mechanism for receiving foreign aid. The United States never considered financial assistance to Qing China. American investments in China were private, although they benefited from U.S. government efforts to open opportunities and enforce contracts, especially in the years between 1909 and 1929. On this point, see Thomas J. McCormick, *The China Market: America's Quest for Informal Empire, 1893-1901* (Chicago: Ivan Dee, 1963); Emily

S. Rosenberg, *Spreading the American Dream: American Economic and Cultural Expansion, 1890-1945* (New York: Hill and Wang, 1982).

⁵² Huaiyin Li, “Geopolitics, Fiscal Constitution, and Statecraft: The Qing Empire Revisited,” paper presented at the Institute for Historical Studies, University of Texas at Austin, 12 November 2012.

⁵³ On the Taiping Rebellion and its connection to broader challenges to Qing rule, see Jonathan D. Spence, *God’s Chinese Son: The Taiping Heavenly Kingdom of Hong Xiuquan* (New York: W.W. Norton, 1996).

⁵⁴ See Li, “Geopolitics, Fiscal Constitution, and Statecraft: The Qing Empire Revisited.”

⁵⁵ Brett Sheehan describes efforts by Li Hongzhang and others to create modern banks in China, but these had limited effect due to the weakness of the state and the political pressures of local and foreign groups who wished more direct control over resources. Qing China lacked a centralized system of law and enforcement for modern banking. See Sheehan, *Trust in Troubled Times*, 19-44.

⁵⁶ On the history of Chinese emigrants and their relationship to the mainland, see Lynn Pan, *Sons of the Yellow Emperor: A History of the Chinese Diaspora* (New York: Kondansha, 1990).

⁵⁷ For a good introduction to these topics, see Dikötter, *The Age of Openness*; Philip Short, *Mao: A Life* (New York: Henry Holt, 1999).

⁵⁸ On the growth of federal government capacities during the New Deal, the best book remains: William Leuchtenburg, *Franklin D. Roosevelt and the New Deal: 1932-1940* (New York: Harper and Row, 1963). See also Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin, 1958), esp. 511-88; David M. Kennedy, *Freedom From Fear: The American People in Depression and War, 1929-1945* (New York: Oxford University Press, 1999), esp. 323-80.

⁵⁹ Adam Tooze argues that Nazi leaders recognized their financial disadvantages in competition with the United States. The Nazis and other fascist regimes pursued policies of conquest, in part, as failed efforts to overcome financial disadvantages. Genocidal aggression, poor diplomacy, and excessive militarism meant that fascist conquests, in fact, worsened their financial disadvantages, creating unprecedented disasters for domestic economies in Germany, Italy, and Japan—as well as the occupied territories, of course. See Adam Tooze, *The Wages of Destruction: The Making and Breaking of the Nazi Economy* (New York: Penguin Books, 2006).

⁶⁰ On the remarkable productivity of the American economy during the Second World War, and the key role of taxation, see Kennedy, *Freedom From Fear*, 615-68. See also Harold G. Vatter, *The U.S. Economy in World War II* (New York: Columbia University Press, 1985); Richard Overy, *Why the Allies Won* (New York: W.W. Norton, 1995); Alan Milward, *War, Economy, and Society, 1939-1945* (Berkeley: University of California Press, 1979).

⁶¹ See James T. Sparrow, *Warfare State: World War II Americans and the Age of Big Government* (New York: Oxford University Press, 2011); Michael J. Hogan, *A Cross of Iron: Harry S. Truman and the Origins of the National Security State, 1945-1954* (Cambridge: Cambridge University Press, 1998); Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (New York: Oxford University Press, 2000).

⁶² See Barry J. Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (New York: Oxford University Press, 2011); Francis J. Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971* (Chapel Hill: University of North Carolina Press, 2004); Eric

Helleiner and Jonathan Kirshner, eds., *The Future of the Dollar* (Ithaca: Cornell University Press, 2009); Stephen Kotkin, *Armageddon Averted: The Soviet Collapse, 1970-2000* (New York: Oxford University Press, 2001).