CHAPTER 1

1. On the relationship between grand strategy, trade, and domestic politics, Skålnes (2000) argues that states in need of allies will pursue favorable discriminatory foreign economic policies to strengthen domestic support for alliance in the target country. Papayoanou (1999) contends that economic ties generate domestic economic interests that influence a leader’s ability to mobilize resources against threatening powers.

2. I would like to thank a reviewer for the term second image reversed plus a second image, which emphasizes that this argument goes beyond examining the effect of international politics on domestic politics, by adding that the empowered coalition will affect the state’s foreign policy. On second image reversed politics, see Gourevitch 1977, 1978, 1986; Katzenstein 1978; Skocpol 1979; Kahler 1984; Weir and Skocpol 1985; James and Lake 1989; Rogowski 1989; Frieden 1991; Deudney and Ikenberry 1991–92; Berger and Dore 1996; Keohane and Milner 1996.


4. On other international factors affecting domestic coalitional politics and domestic institutional development, see Lane 1958; Bean 1973; Tilly 1975, 1990; Stein 1978; Skocpol 1979; Frieden 1988; and Campbell 1995.


6. For a distinction between resource mobilization (wealth creation) and extraction (consumption of wealth), see the discussion in Mastanduno, Lake, and Ikenberry 1989, 462–64.

7. Hegemonic stability theory makes the same assumption about decline. On
power transition and long cycle arguments, see Organski 1968; Organski and Kugler 1980; Gilpin 1981; Kennedy 1987; Modelski 1987; Goldstein 1988; and Rasler and Thompson 1994.

8. Gilpin (1981) and Kennedy (1987) strengthen Organski's original model by explaining why a hegemon cannot indefinitely sustain its dominant position. Although the hegemon reaps the benefits from preponderance, domestic and international costs of governing the international system will contribute to the hegemon's relative decline. The issue of balancing protection, investment, and consumption to arrest decline is complicated because a reduction in protection will result in external weakness, a reduction in consumption will contribute to internal social tension, and a reduction in investment will reduce the capacity of the hegemon to sustain its level of consumption and investment. Friedberg (1989a, 399–400) contends that the hegemon can maintain its existing rate of military spending by reducing public and especially private consumption. There is extensive literature on the prescriptions for great power resurgence; see Calleo 1987; Huntington 1987–88, 1988; Rosecrance 1990.

9. In contrast, as part of his argument, Kupchan argues that highly vulnerable declining powers will pursue overly cooperative policies in the core (1994, 17, table 2). Goldstein (1988) offers a slight twist to the power transition argument. He holds that more severe wars are likely to occur during the upswing phase instead of during the phase of hegemonic decline. His assumption is that economic expansion triggers competition among the great powers for scarce resources, and war becomes one means to secure them.


11. Writing shortly after World War II and in response to an emerging Soviet Union, Walter Lippmann (1943) and George Kennan (1954) argued that not all regions of the world were equally vital to American security. According to Kennan, only five centers of industrial and military power in the world (the United States, Great Britain, Germany and central Europe, the Soviet Union, and Japan) were central to American national security. Since just one region was in hostile hands, Kennan's policy of selective containment was intended to ensure that none of the other regions came under Soviet control. Kennan's assessment was that only by conquering some or all of these vital power centers could the Soviet Union (or any other emerging contender, including America's allies) tip the balance of power in its favor by commanding greater industrial power than the United States. Kennan objected to the argument that the United States had to resist communism wherever it appeared. There was no need to contain the Soviets in the Third World because even substantial Soviet conquest would have little impact on the global balance of power. Instead, the Third World offered little strategic value for
the great powers and diverted scarce national resources from the main theaters of operation.

Stephen Walt (1989) and Stephen Van Evera (1990) assert that America’s vital interests have not substantially changed over the last five decades. The Persian Gulf has been added to the list of strategic regions, to preserve Western access to oil. According to Walt’s calculation, Western Europe is the largest “prize,” producing roughly 22 percent of the gross world product, and the Far East the second largest, producing 12.5 percent. The entire Third World produces less than 20 percent of the gross world product, scattered over more than 100 countries; all of Africa has an aggregate GNP lower than Britain (Walt 1989, 19). Samuel Huntington (1993) adds that even in the post–Cold War era, the United States cannot allow any single state to dominate either Europe or Asia since the threat of the Soviet Union merely masked the conflicting interests among Western democratic states. To ensure no single state dominates the Eurasian land mass, Huntington recommends that the United States limit German power in the new Europe, restrain Japan by continuing the U.S.-Japanese military alliance, maintain its military posture in East Asia, and secure the Persian Gulf and Central American regions.

12. The hegemon’s predicament of how to respond to challenges is analogous to the chain store paradox (Selten 1978; Rosenthal 1981; Milgrom and Roberts 1982; Von Hohenbalken and West 1986; Fudenberg and Kreps 1987; Fudenberg and Tirole 1991). According to the chain store paradox, a chain store has branches located in different cities and faces sequential potential entrants into each market. By backward induction, the game-theoretic strategy for the chain store is to pursue a strategy of cooperation in the face of potential entrants. In the last round of the game, the chain store has no incentive to punish the contender in order to establish a reputation for harsh retaliation since there are no future entrants to deter (punishing through a price war is costly for the chain store). By backward induction to the first round, the chain store will always select to cooperate, and the challenger will always enter the market. By forward induction, the chain store will pursue a strategy of deterrence. The chain store will punish any competitor that attempts to enter its market in order to establish a reputation for standing firm. For a hegemon, one solution to this paradox is to distinguish among contenders, accommodating friends and punishing rivals (Lobell 2001).

13. One problem with these arguments, such as Kupchan’s (1994), is that they ignore the political cost in failing to adjust to international change. Failure of an overextended state to retreat from its empire due to strategic myths means that the metropole will be even more unprepared for conflict in the core. The general public is likely to punish the government for this poor state of affairs.

14. Friedberg (1988) suggests that with improved analytical tools, Britain would have adjusted better to its changing international environment by increasing military spending, boosting government intervention in the economy, and
maintaining its global empire. However, higher military spending might have prompted higher spending by the Central Powers, lower French military spending, or a more aggressive Franco-Russian foreign policy (McKeown 1991, 270). In Britain, many Liberals and Radicals opposed heightened defense spending for fear it would only provoke other powers to do likewise (Morris 1971, 369).

15. See Cortrell and Peterson (1999) who examine the effects of domestic and international events to account for institutional transformation.

16. For an application of this perspective, see Stein and Lobell 1997. We argue that the end of the Cold War will not have a uniform effect on the post–Cold War era. In regions that were isolated from the Cold War and regions on the periphery of this rivalry, there will be little change. However, in regions that were highly penetrated by the superpowers, future regional relations will depend upon whether superpower intervention in regional affairs increased or decreased regional conflict and whether or not this involvement left a lasting impression on the region.

17. On the literature on subsystems, see Binder 1958; Brecher 1963; Zartman 1967; Cantori and Spiegel 1969; Brown 1984; Noble 1984; Doran 1989. For different definitions of the concept of a region, see Lake and Morgan 1997.


19. Japan played an active role in Latin America’s debt management (Katada 1994).

20. For a counterargument, see Wohlstetter 1968.

21. I term this coalition liberal rather than free trade. While the former faction called for many of the same economic policies as the latter, such as lowering the cost of hegemony to reduce taxation and spending, and a concern for creating a positive environment for domestic investment, they did not call for free trade (however, they did oppose Madrid’s exclusive trading companies and the embargoes against Dutch and English goods).

22. A hegemon can affect the environment that it faces through the policies that it chooses to adopt. For a good example of the effect of the hegemon’s commercial policy in changing the contenders’ commercial policy (or the “second face of hegemony”), see James and Lake 1989.

23. For instance, Olson (1982) argues that vested interest groups or “distributional coalitions” reduce economic efficiency and constrain economic growth. Ibn Khaldun (1967) and Gilpin (1981) emphasize the corrupting influence of economic prosperity (especially rising public consumption). On the negative effect of Britain’s rigid social structure, see Barnett 1972. On Rome’s economic decline, see Bernardi 1970; on its moral decay, see MacMullen 1988; on the moral weakening of the ruling classes, see Eisenstadt 1963.

24. See the organizational literature on industrial decline and adaptation to changes in the market: Whetten 1980, 1987; Zammuto and Cameron 1985; Weitzel and Jonsson 1989. External shocks encourage sameness and duplication
(i.e., follow-the-leader) among the great powers. Since states are competing with each other, if one state introduces a change that will give it an advantage or make it stronger than the rest, the others must duplicate it in order to keep pace. Any state that fails to do so will fall behind the states that do adapt; see Stein 1990, 115–16.

25. Latecomers might have an advantage because they can adopt newer technological innovations while earlier investors must wait to recoup initial investment; see Chase-Dunn 1982, 83.

26. Keohane notes that powerful “countries can postpone adjustment; and the stronger they are, the longer it can be postponed . . . but . . . it merely postpones the inevitable, making it more difficult to deal with in the future” (1982, 70).

CHAPTER 2

1. Having a competitive economy does not guarantee the hegemon will pursue a liberal foreign economic policy. In the 1930s, Germany was economically advanced but pursued an imperial foreign economic policy. For a discussion of advanced and backward economies, see Krasner 1976; Lake 1988; Rogowski 1989; Brawley 1993.


4. A simple signaling game can explain how, in a world of incomplete information, a declining leader can identify whether a rising contender is a supporter or a challenger. If a declining leader has perfect or full information about each rising contender, it can readily determine a rising state’s type (type refers to any information that is not common knowledge to all players). Under this condition there is little doubt about how to identify whether an emerging state is a friend or foe.

In the real world it is necessary to relax the assumption of complete information (Jervis 1970; Stein 1983, 1990; Bueno de Mesquita and Lalman 1992). A declining power will look at a trait of the rising states in order to assess their type (just as an individual who prefers to fight a wimp instead of a bully can observe what others have for breakfast to gain insight into their type—wimp if he/she eats quiche and bully if he/she has beer; Kreps 1990, 463–64). The central trait that I focus on is a rising state’s foreign commercial policy. For an application to international relations theory, see Powell 1987; Alt, Calvert, and Humes 1988; Morrow 1989; Stein 1990.

5. On the concept of the Manchester Liberals, see Grampp 1960; Blainey 1988, 18–32.

6. On the competition between coalitions for control over domestic and foreign economic policy, see Katzenstein 1978; Gourevitch 1986; Friedberg 1988; Frieden 1988, 1991; Milner 1988, 1997; Nelson 1989, 1990; Rogowski 1989; Sny-
der 1991; Vasquez 1993; Perthes 1994; Keohane and Milner 1996; Lawson 1996; Solingen 1997, 1998; Schamis 1999. While most of this literature explains foreign economic policy, a good example of the effect of coalitional competition in the security realm is John Lewis Gaddis’s Strategies of Containment. According to Gaddis (1982, 352–57), during the Cold War a debate over America’s capabilities and its global commitments raged between the defenders of the “asymmetrical” approach or soft-line realists (fiscal orthodoxy, limitation of resources, and distinction between vital and peripheral commitments) and the supporters of the “symmetrical” approach or hard-line realists (high military spending, deficit spending, and defense of the core and the periphery). The dominance of the former coalition explains the Truman administration’s initial restraint in the periphery, the Eisenhower administration’s New Look and thrifty massive retaliation policies, and the Nixon administration’s cost-saving Nixon Doctrine and Détente. The predominance of the latter coalition explains the U.S. decision after the Korean War to punish emerging contenders in both the core and the periphery (the shift from strong-point to perimeter containment, and from economic to military containment) and the Kennedy/Johnson administration’s ambitious and costly policy of Flexible Response, funded by the Keynesian revolution.

7. See the literature on the politics of structural and economic adjustment, which discusses the domestic political consequences of economic liberalization, such as Haggard and Kaufman 1989, 1992; Evans 1992; Kienle 1994; Sahn, Dorosh, and Younger 1997.

8. In contrast, according to Conybeare (1987, 23–28, 271–73) optimal tariffs are the preferred tactic for a hegemon to exploit small states.

9. For free traders, the proper role for the state in any alliance is to act as the quartermaster or the economic powerhouse of the alliance, providing loans and military equipment to their allies (instead of dispatching troops). See French 1986.


11. Among others, see Hobson 1938; Lebovics 1967; Fischer 1975; Kehr 1976; Gourevitch 1986; Waterbury 1989; Snyder 1991; Zakaria 1992; Rotte 1997. The timing of development can play a crucial role in differential domestic arrangements. Hirschman (1958) and Gerschenkron (1962) discuss the differences between early, late, and late-late industrializers, which can also affect the relative strength of the free traders and the economic nationalists, since in the former the state is less interventionist (granting free traders more autonomy) and in the latter the state plays a leading role in development (insulating economic nationalists).

12. The military will favor expanding (or retreating) from indefensible positions (Galbraith 1960; Thompson and Zuk 1986).
13. Friedberg 2000. Schumpeter (1955) argues that export monopolists push for imperialist expansion as a way to enlarge their closed markets.

14. Rent-seeking behavior is common for interventionist and regulatory states.

15. For a discussion of Innenpolitik and Aussenpolitik, see Zakaria 1992, 179–81.

16. See Higgs 1987, 57–74; Porter 1994, 14; and Friedberg 2000, 30–32, for a discussion on the role of ratchets and rollbacks in strengthening and weakening domestic actors and interest groups. For a discussion and example of degrees of coalitional strength, see Solingen 1998, 64, fig. 2.

17. Snyder (1991, 31) labels these power assets: material resources, organizational strength, and information.

18. Among others, see Alt and Gilligan 1994; Alt, Frieden, Gilligan, Rodrik, and Rogowski 1996.

19. Evans 1992, 144. Also, a smaller win-set means that economic nationalists need to satisfy only a powerful few (Brawley 1993).


22. Such as job retraining for workers in inefficient industry; see Waterbury 1989, 41.

23. Stephen Rock (1989, 13–15) and Mark Brawley (1993, 19–20) challenge the assumption of a peaceful commercial transition among certain liberal dyads. According to Rock, peace is most likely to “break out” among states that are heterogeneous in their economic activity, and tension is most likely to escalate among states that are homogeneous in their economic activity. Rivalry is likely among homogeneous states, even if they are liberal states, because they will compete with one another in home and overseas markets. Similarly, according to Brawley, a capital-abundant declining liberal leader and a capital-abundant liberal challenger are natural economic rivals because they will produce and/or export similar goods and services.


25. According to Gowa (1994), rivals are unlikely to trade for fear that economic gains will be converted into military power.

26. I would like to thank Arthur Stein for this term. According to David (1991, 243) and Ayoob (1998), ruling elites in the Third World balance against internal threats to their regime’s survival as well as against more traditional exter-
nal threats to the state. Such elites will advance the regime’s interests, even if it overrides the state’s.

27. A state does have a number of alternative means to increase its rate of resource extraction. Additional domestic resources can be extracted through taxation and borrowing. Other strategies to acquire additional resources include extracting revenue from other states in the empire (i.e., burden-sharing) and territorial conquest to grab or steal wealthy regions.

Domestic reforms can be implemented to create greater efficiency in the means of extracting or using existing resources. In the first century B.C.E., Rome nearly collapsed due to the fighting among governors seeking to enrich themselves. Emperor Augustus implemented a number of administrative reforms that recen
tralized the bureaucracy, giving it greater control over both money and arms (the wealthy province of Egypt became a possession of the emperor; Starr 1982). Further, to stem the European onrush, a declining Ottoman Empire adopted a series of domestic reforms, borrowing Europe’s military technology and seeking to con
csolidate power in Istanbul (this era of reform is known as the Tanzimat).

The state can strike a bargain with society, exchanging greater resource extraction for more social rights and benefits (Levi 1988; Lamborn 1991). Such a bargain can defuse societal opposition to increased resource extraction. The 1905–10 pension and welfare reforms in Britain were intended to offset the massive increases in extraction during the Boer War (Lamborn 1983, 130). Leaders have also extended suffrage to increase the rate of extraction for defense. To increase its capabilities in the long term, the state might be able to generate additional resources, especially if the immediate military threat is not too great. The state can promote greater industrial productivity or industrial revitalization through macroeconomic tools, which will raise societal wealth and increase the base from which the state can extract resources. At the extreme, through state-led development, the government can encourage industrial growth and restructure the economy (Trimberger 1978). This strategy of resource mobilization is highlighted by the Meiji Restoration in Japan and Stalin’s five-year plans in the Soviet Union.

28. On the danger of budget deficits, see Thurow 1985; on the trade-off between guns versus butter, see Mintz and Huang 1991.


30. On the distributional effects, see Frieden and Rogowski 1996, 45–46.

31. A challenger might not rush into war with a more powerful hegemon, but wait until its power exceeds the erstwhile leader’s.

32. Rising liberal contenders will find it easier to cooperate in concert against a hegemon pursuing an imperial foreign economic policy. More than a temporary marriage of convenience, liberal contenders will mutually benefit under a liberal commercial arrangement. Imperial challengers will have difficulty creating stable
alliances. An imperial ally is a potential threat since it will seek exclusive control over any locale that it comes to dominate.

CHAPTER 3

1. The Conservative Party was referred to as the Unionist because of its commitment to the union with Ireland.

2. On the ascendance of members of the free-trade coalition (merchant bankers), see Lisle-Williams 1984.

3. As Porter notes of Britain’s predicament during this period, “It was a kind of catch-22 situation. Fail to fortify the citadel and it would be stormed from without. Fortify, and it would collapse from within” (1983, 56–57).


5. LaFeber 1997, 151–52. According to Brawley, the changing nature of American tariffs from the McKinley Tariff of 1890, to the Wilson-Gorman Tariff of 1894, to the Payne-Aldrich Tariff of 1909, and finally to the Underwood Tariff of 1913 meant that “the emphasis of protection went from industry in the 1880s, to industry and agriculture in the 1890s and 1900s, to agriculture only, to little protection for any sectors in 1913” (1993, 126–27).

6. Russia rebuffed part of the agreement on uniform railroad rates in China because it intended to use differential rates to pay for railroad construction.

7. Despite the rapid industrialization experienced under the Meiji era in Japan (1868–1912), a large percentage of the population remained in agriculture.

8. Japan’s expansion in the Pacific during this period is characterized as primarily defensive in nature. In the case of Korea, due to its geographic proximity, the Army General Staff deemed control over the Korean peninsula as essential to the defense of Japan (Crowley 1974, 18). Japan’s goal was to deny control over Korea by any other power, since Korea was “a dagger pointed at the heart of Japan” (Crowley 1974, 13). Gillard argues, “As rulers of an island power off the Asian mainland, Japanese leaders felt about Korea much what the British felt about Belgium” (1977, 162). Outside of Korea, Japan was anxious to gain control over the sea approaches to Japan, especially the Straits of Tsushima, and Taiwan and the Pescadores Islands to protect its southern flanks (Duus 1976, 129).

9. The Méline Tariff was also highly selective, and duties were even reduced on some imports (Smith 1992, 235).

10. Geiss 1976, 84–95; Callio 1978, 9–25, 43–48. The chief architects of Germany’s Weltpolitik were Chancellor von Bulow, Naval Secretary Alfred von Tirpitz, Minister of Finance Johannes Miquel, and Kaiser Wilhelm II.

11. Kehr (1977) emphasizes the domestic element of Weltpolitik. He attributes it to three forces: agrarians, commercial and industrial bourgeoisie, and the industrial working class.

12. Schultz 1989, 322–25. During World War I, Mitteleuropa was expanded into the broader concept of Ostrauem, with Germany extending through the
Ukraine to the Caucasus and Georgia (Fischer 1975, 33–34, 46; Calleo 1978, 48; Hillgruber 1981, 38, 45).

13. The Mendeleyev Tariff of 1891 placed heavy duties on imported manufactured goods and on exported raw materials, allowing free entry to only fourteen products; Sontag 1968; Geyer 1987.

14. One attempt to gain the support of labor for protection was the Trade Union Tariff Reform Association.


16. Longstreth 1979, 160–63; Ingham 1984, 96–102, 113–16; Cain and Hopkins 1993b, 125–31. Daunton (1989, 149) divides the City into four primary groupings: bankers, financiers and stockbrockers; shipping interests; middlemen and importers; and colonial houses. On other characteristics of the members of the City, see Davis and Huttenback 1986, 162–82.

17. The Treasury interpreted its role as balancing the budget, while the Bank of England was responsible for monetary policy. According to Cain and Hopkins, “The logic of free trade was precisely that debtors had to be given access to other markets so that they could acquire the foreign exchange needed to service their debts. If Britain’s creditors had bought more British manufactures, they would have been less able to meet their obligations to the City of London” (1993a, 306).

18. Emy 1972, 114–15. According to the Permanent Under-Secretary of the Treasury, E. W. Hamilton, “One of the principal reasons why there are such uneasiness and stagnation in the City is that the Government have been borrowers on so large a scale on account of the war and of the Transvaal after the war. The Money Market is suffering from a surfeit of Government stocks that in fact have never been properly digested. Digestion of these stocks, as also of other stocks of the gilt-edged order, like Municipal and Colonial Loans, must be a slow process; but, slow though the process may be, the difficulty would be surmounted in course of time, were further issues of a considerable amount not to be feared. Unfortunately, the Loan horizon is not clear” (PRO, T. 168/61, “The Financial Outlook vis à vis the City,” 10/9/03).

19. Hamilton warned, “I believe it is difficult to overrate the advantages which result from the maintenance of a considerable Sinking Fund. It not only gives great strength to our credit in times of peace, but it is an immense reserve in times of war. Indeed, the Sinking Fund constitutes our War Chest, and a War Chest administered in a much more scientific and much less wasteful manner than that of Germany. Its legitimate suspension in times of real emergency would enable us to raise, without any additions to taxation, over 200 millions. But in normal times to reduce seriously the amount devoted to redeem debt would, I believe, tell sensibly on our credit and on the financial position which we occupy in the eyes of the world; and any proposal which the chancellor of the Exchequer might make in the direction of trenching upon the national Reserve Fund, opposed as such proposal
would be to the best financial authorities, would be most difficult to defend” (PRO, Cab. 37/39/38, 7/24/95).

20. Britain’s income tax and high international credit rating meant that it had superior war potential over its Continental neighbors (Emy 1972; Kennedy 1983; D’Lugo and Rogowski 1993; Ferguson 1994). First, Britain’s Treasury had the power to levy and increase both direct taxes and indirect taxes, while most European governments could raise revenue only by indirect taxation. In the case of Germany, only state governments (not the Reich) could raise direct taxes. Consequently, much of Germany’s spending on the navy during the Anglo-German naval rivalry had to be financed through loans. In France, indirect taxes, stamp taxes, and a high level of borrowing financed public spending, while in Russia, the government relied on revenues from taxes on consumption and railways, and on foreign capital. Second, Britain’s management of public debt meant that the government could borrow large sums of money at relatively low interest rates. In contrast, the Continental states tended to borrow on the money markets, even in peacetime, in order to cover the gap between expenditure and revenue. The result was a high national debt and higher interest rates (however, during the interwar period, Britain’s chancellor of the Exchequer warned that during peacetime “we could not compete on taxation basis against nations who were acting on a loan basis”; Shay 1977, 74). Thus, while the combined economic resources of Britain’s neighbors were greater than its own, Britain’s capacity to extract revenue was much greater than the Continental powers.

21. On left-wing opposition to naval armaments, see Weinroth 1971.

22. In 1886, Chamberlain led the Liberal Unionists into alliance with the Conservatives (known officially as the Conservative and Unionist Party after 1912). Colonial secretary since 1895, Chamberlain resigned in 1903 to campaign for imperial preferences. In 1903, his campaign split the Conservative Party between protectionists (Chamberlain), a powerful minority who favored free traders (Duke of Devonshire), and Balfour, the party leader (who wavered between these two positions to hold the party together), contributing to its defeat in the 1906 elections (Lloyd 1970, 4–8).

23. Britain’s relative industrial decline is highlighted by its increasing dependence on the export of cotton and coal.

24. Many farmers expressed concern about proposals for imperial preferences especially those based on free admission of colonial grain.

25. As war approached, some economic nationalists called for a national insurance scheme to reimburse ship owners and merchants for the cost of war risk insurance. The fear was that otherwise ship owners would dock their vessels for the duration of the war. Those willing to take the risks would pass on the higher costs to the consumer, raising the cost of scarce imported goods. The Treasury was not convinced that rising prices would have dire results.

26. Tariffs included: in the United States, the McKinley Tariff of 1890, the
Wilson-Gorman Tariff of 1894, and the Dingley Tariff of 1897; in France the Méline Tariff of 1892; in Russia the Mendeleyev Tariff of 1891; and in Germany the Caprivi Treaties of 1879 and 1902 (Ashley 1970; Lake 1988).

27. Chamberlain also created the Tariff Reform Commission to study the issue.

28. Some in the empire opposed this relationship since it meant that Britain would remain the supplier of manufactures and the colonies would specialize in the export of food and raw materials. This did not satisfy the colonies’ own aspirations to develop their manufacturing sectors.

29. Dintenfass (1992, 40–45) challenges the argument that foreign lending starved industry and trade at home. For an extended discussion on the debate over whether the British banks failed British industry and the manufacturing base of the economy by ignoring their needs while focusing on international trade, finance, and services during this period, see Pollard 1985; Best and Humphries 1986; Daunton 1989; Collins 1991.


32. The aristocrats were also concerned about R. B. Haldane’s (secretary of state for war in the Liberal government) proposed reforms of the army. Organizations favoring consolidation of empire included the Imperial Federation League, Colonial Institute, and the Imperial Institute; see Green 1995.


34. Ingham 1984, 80; Cain and Hopkins 1993b, 144–45. The bimetallic controversy of the 1880s and 1890s foreshadowed the growing strength of the City of London over industry during the coming decades. The slide in silver prices caused a revaluation of the sterling against silver-based currencies making it harder to export to silver standard countries, but easier to buy imports from them. It increased invisible income and harmed those suffering from foreign competition, such as agriculture. One solution, rejected by the City, called for an agreement that would fix a ratio for gold to silver (Cain and Hopkins 1993b, 151–52).

35. Soviet scholars argue that no Russian threat existed to India. But if Britain perceived it as a threat, that was all that mattered; see Yapp 1987, 647.

36. The Naval Defence Act granted Britain an advantage over the Russian and French naval programs by departing from the existing budget process (Sumida 1989, 13–15). Traditionally, a department submitted budget estimates for the following year, and any unused portion was returned to the Treasury. For the navy, which had projects requiring multiple years of funding, it annually requested funding for the same project. The middle years of naval construction were the most
expensive, necessitating an increase in the level of funding. Lack of funds often meant that naval construction was delayed, and interruptions in construction raised the overall cost of a ship. The Naval Defence Act provided a remedy to this problem. First, it provided funding for five years instead of a single year. Second, it allowed for unexpended balances for naval construction from one year to be used in the next year. Thereby, underspending in the early years of construction would be applied to the more expensive middle years of construction, without requiring the Treasury’s and Parliament’s annual approval.

37. Responding to France and Russia, as well as addressing German naval construction; Sumida 1989, 23; Williams 1991, 72–73.

38. While Selborne supported Chamberlain’s call for preferential tariffs (Boyce 1990, 7).

39. France’s naval expenditures, which had risen since the 1870s, fell in 1902 and further in 1903.

40. Monger 1963, 136. Significant for Britain was France’s respect for British strategic interests in the Mediterranean (Williamson 1969, 8–10, 15). Determined to prevent the fortification of the narrow eight-mile-wide Straits of Gibraltar, Britain (and France) agreed to give weaker Spain control over the sector of the Moroccan coast adjacent to the Straits, not allowing any fortifications to be built.

41. Williams 1966, 371. The liberal opposition parties in Russia opposed the loan because it would strengthen the government of Nicholas II (Crisp 1961, 497).

42. Steiner 1977, 83. Persia was divided into three spheres—Russian (north), British (south), and a neutral zone. Britain also hoped to prevent partition, keeping the constitutional government in power. One consequence for London was that concessions emboldened imperial Russia to make ever-increasing demands on Britain’s commercial interests in Central Asia, especially northern Persia (with the loss of the five northern provinces), where Russian forward policy entered a new phase of aggression, extending their power toward the neutral zone (Robbins 1977, 17–18). In 1909, the Russians dispatched troops to Persia and began their military occupation, encroaching on the south.

43. Rock (1988, 345–46) maintains that America’s naval threat forced Britain to retreat from the Western Hemisphere. The combination of America’s construction of a “risk” fleet and Britain’s unwillingness to concentrate its fleet in the Americas (due to its rivalry with France, Russia, and Germany) forced London into making a number of concessions. The problem with Rock’s argument is that the timing is wrong. Britain’s departure from the Americas (which was already in process by 1901) prompted the United States to increase the size of its fleet. In 1898, the United States had only six modern battleships, including the Maine. The Venezuelan crisis of 1902 served as a great impetus for the construction of a larger American navy. No longer able to free ride on protection from the Royal Navy, the United States initiated a naval buildup (the lead time was roughly three

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years to build a battleship). Between 1902 and 1905, Congress authorized ten first-class battleships, four armored cruisers, and seventeen other vessels of various classes (Bourne 1967, 338).

44. In 1903, Britain’s prime minister, Arthur Balfour, openly proclaimed his support for American regional hegemony, claiming, “The Monroe Doctrine has no enemies in this country that I know of. We welcome any increase of the influence of the United States of America upon the great Western hemisphere” (Bourne 1967, 350).

45. PRO, FO. 46/547, “Memorandum by Francis Bertie,” 9/22/01.

46. PRO, ADM. 116/866B15 1/06.

47. British interests accounted for 70 percent of China’s trade, which was one-sixth of total English commerce (LaFeber 1963, 316). To allow Britain to draw down the number of battleships stationed in the Far East, the Foreign Secretary inserted into the original treaty terms that called for each partner to maintain (in the Far East) naval forces superior to those of any other power, using the words “as far as possible” (Marder 1940, 429–30; Monger 1963, 57–58).

48. In a telegram to Yokohama (1902), the Baring Brothers reported that the cooperation of the Bank of England was vital in ensuring the success of the 5.5 percent loan (Warner 1991, 54).

49. The alliance was renewed again in 1911 for ten years.


51. PRO, Cab. 37/70/61, 4/30/04.

52. Marder 1961, 28–45. During the 1890s, the army and the War Office were guided by the Stanhope memorandum (1891) that defined the army’s duties as home defense, supplying replacements for overseas garrisons, and preparing two corps for operations in colonial areas. By 1903, this duty had been revised; the navy could block any invasion threat, leaving the army to defend against a possible Russian invasion of India.


54. Sumida 1989, table 3. Between the fiscal years of 1906–7 and 1908–9, Naval Estimates were 15 percent below the level reached in 1904–5 (Williams 1991, 84).

55. Yet, the navy already excluded the United States in its calculations; Gooch 1994, 289.


57. Wilmott 1972, 61. According to Williams (1991, 90), two issues were in dispute among free traders and economic nationalists: whether the Germans could fulfill their target of four dreadnoughts a year and how long construction would take.
58. Peden 2000, 51. In 1908 Herbert Henry Asquith replaced Sir Henry Campbell-Bannerman as prime minister, David Lloyd George went to the Exchequer, and Winston Churchill went to the Board of Trade.

59. The building programs of Germany’s allies, Austria and Italy, left the government no choice, and the additional ships of the 1909–10 program were later approved by the cabinet.

60. Lambelet 1974, 23. Lambelet contends that Germany got the shorter end of the agreement: (1) Britain breached the accords in 1912, when it laid down an additional battleship; (2) Germany made concessions in the first year, while Britain’s were more spread out.

61. Lambelet 1974, 14–17, table 2. Between 1909 and 1912, eighteen dreadnoughts were constructed. During the winter of 1913–14, Churchill threatened to resign if the cabinet agreed to cuts in battleship construction.

62. For France, maintaining sea control in the Mediterranean was essential to ensuring the transport of troops from North Africa. This arrangement granted France local superiority over the combined Italian and Austrian fleets.

63. Yet between 1890 and 1910, the United States surpassed Britain as the world’s leading power without provoking a similar reaction.

64. D’Lugo and Rogowski (1993) and Ferguson (1994) argue that during the Anglo-German naval race (1909–12), Britain mobilized a greater share of its societal resources for naval spending than Germany because Great Britain’s constitutional system was more flexible. In Britain, the Treasury had the power both to levy direct taxes and to borrow in order to bridge any shortfall in defense spending. In contrast, after German unification in 1871, as dictated by Germany’s constitution, much of the power to tax remained in the hands of the states, rather than the federal Reich. Thus, a weak German Treasury was unable to secure a larger share of revenue for bigger defense budgets.

65. For free traders, the greatest concern was a German naval blockade that would cause economic chaos (Howard 1982, 150).

66. This policy was known as the Limited Liability strategy; see Hancock and Gowing 1953, 12–40; French 1982c; Newton and Porter 1988, 31–39. According to French (1986, 101), the free-trade preponderance was even greater than the numbers suggested since they occupied the key ministerial positions.

CHAPTER 4

1. In fact, the services were authorized to buy more planes and the army more equipment than industry could build (Dunbabin 1975, 601; Shay 1977, 80–83; Peden 1979, 151–67; Kennedy 1981, 232). Shay (1977, 83) notes that “it is safe to say that in 1936 money was not an object for the R.A.F.”

2. Voluntary industrial cooperation that granted priority to war production was selected over state compulsion.

4. London's concern was that any state that dominated the Continent could block Britain's commercial access and invade the British Isles.

5. As Japan met resistance to its expansion in China, Tokyo became dependent on imports from the United States for goods such as machine tools and aviation fuel to continue its war effort. Like Germany and Britain, rearmament greatly reduced Japan's stock of foreign currency.

6. In an attempt to sidestep Britain, in the spring of 1935, Japan's Ambassador Saito Hiroshi tried to convince Secretary of State Cordell Hull that the two governments should issue a joint declaration designating the United States as the stabilizing power in the eastern Pacific and Japan as the stabilizing power in the western Pacific.

7. Japan's investment in China, including Manchuria, represented 82.9 percent of its total foreign investment (Trotter 1975, 19).

8. This move was forbidden by the Treaties of Versailles and St. Germain, and the Geneva Protocol of 1922.

9. German rearmament beyond the limits set in the Versailles treaty were well known (Mowat 1968, 539–41).

10. Many conservatives in Germany wanted to pursue colonial interests, refraining from action in Europe.

11. One concern in Congress was that the Lend-Lease Act would help Britain compete with the United States in world markets. There were strict rules to what Britain could re-export, and Lend-Lease was terminated abruptly at the end of the war.

12. French 1982a, b; Milward 1984; Cain and Hopkins 1993a. In mobilizing for war, Britain progressed from "business as usual" to a "nation in arms" to "total war."

13. The crop area in Britain was increased by three million acres. The effects of the German submarine blockade during World War I led the government to use financial incentives and compulsory powers to attempt to reverse the trend of agricultural development over the previous forty years (Milward 1984, 29–30; Ferguson 1998, 252, table 24).

14. The Treasury was required to approve all new share issues on the stock market. Cheap loans encouraged substitution of imports previously supplied by Germany.

15. The Treasury was viewed as a "general staff." In 1936, Sir Thomas Inskip was appointed Minister for the Co-ordination of Defence. This fell well short of a minister of defense because it lacked a department and had no executive powers.


17. The limit of borrowing was dictated by the classical economic belief that a
nation could only borrow as much as its citizens saved (Shay 1977, 160–61). Any borrowing in excess of this limit would simply mean printing money that would give way to inflation, damaging Britain’s international credit and trade.

18. White Dominion interest in developing their own manufacturing militated against the vision of the empire as an economic unit. Between 1910 and 1935, British exports to its empire rose from 35 percent to 50 percent, while imports from its empire rose from 25 percent to 40 percent (Porter 1983, 94).

19. The FBI was the national organization for manufacturing firms; see Boyce 1974; Capie 1983, 61–76.

20. The COS consisted of the Chief of Naval Staff, the Chief of the Air Staff, and the Chief of Imperial General Staff.

21. There was no limit on auxiliary ships (smaller than battleships), resulting in a race in cruisers, the next largest ship, between Britain and Japan by 1926.

22. Capie 1983, 72–75. As Keith Robbins notes, “it was unfortunate that opposition to Free Trade was so closely linked to enthusiasm for empire” (1983, 139).

23. Parker 1981, 307; Peden 1979, 82; Shay 1983. This argument challenges John Maynard Keynes’s, who claimed at the time that Britain needed to simply pursue a strategy of deficit spending to resolve its weak economy. The lack of skilled labor meant that deficit spending would be inflationary. Furthermore, skilled craft unions resisted breaking down jobs so that they could be carried out by less skilled labor.

24. In 1932, the Exchange Equalisation Account (EEA) was established, marking the transfer of control over the exchange rate from the Bank of England to the Treasury.

25. The government’s first step toward protection was the Abnormal Importations Act (1931), designed to defend the balance of payments from imports. Parliament gave the Board of Trade powers for six months to impose duties up to 100 percent on a wide range of manufactured goods that were thought to be entering the country in abnormal quantities. The Horticultural Products (Emergency Act), which passed soon after, gave the Minister of Agriculture similar powers to hamper the importation of fresh fruits, flowers, and vegetables.

26. Many of the Dominions were keen on building up their infant industries behind tariffs intended to protect them from more efficient producers, including Britain’s (Porter 1994).

27. According to some scholars the tariff was only for international bargaining (i.e., retaliation) and not a turn toward protectionism (Taylor 1965, 331).

28. The result was that Britain’s exports to the Dominions received preference, but chiefly by increasing the tariff against foreign goods.

30. Moderates in Japan realized that Tokyo would need British cooperation in the economic development of China.

31. The report by Leith-Ross called for taking China off the silver standard and fixing it to sterling, the establishment of a Central Reserve Bank, and a balanced budget to clear the way for new lending (Cain and Hopkins 1993a, 235–62).

32. Holland 1981, 296. Reparations were abolished in 1932 by the Lausanne Treaty.

33. Endicott 1973–74, 486. The fate of the Chinese currency was important to Britain because of British investments in the country and China’s close link with the trade and currency of Hong Kong (also on silver).

34. Especially after the seizure of Prague in 1938 (MacDonald 1972, 127).

35. Yet, in 1938, Britain acquiesced in Japan’s insistence that the customs revenues at Shanghai and Tientsin be placed in a Japanese bank (Lowe 1981, 159–60). The danger was that Japan might appropriate the international concessions. Shai (1974) contends that British appeasement (a “Far Eastern Munich”) in the Far East persisted.

36. Shanghai represented three-quarters of Britain’s holdings in China (Trotter 1975, 18). The city was also important to shipping firms, handling much of the extensive inland trade on the Yangtze River.

37. Endicott 1973–74, 495. It was believed that Tokyo’s economic plans for the occupied areas would fail because Japan lacked capital, becoming financially exhausted.

38. Also see Skidelsky 1976, 159–60.

39. The DRC consisted of the Chiefs of Staff Sub-Committee (COS) and the secretaries of the Foreign Office and the Treasury.

40. In 1936, the five-year rearmament program approved by the cabinet relaxed the procedure for approving the annual review of Estimates. To increase the speed of rearmament, instead of withholding sanction until the entire vote had been approved by the Cabinet, the Treasury would now sanction items individually. In addition, contracts were placed on a long-term basis to accommodate the ongoing nature of rearmament (Peden 1979, 40).

41. Since 1922, Britain’s leaders had agreed that in the event of war in the Far East, the main fleet would sail to Singapore via the Mediterranean, with reserves left behind to defend the home waters.

42. Gibbs 1976, 122–25. The Royal Navy reconformed its commitment in 1937 (at the Imperial Conference) and again in 1939 to send the fleet to Singapore.

43. The Sea Lords discounted a German naval challenge to Britain’s home waters; Watt 1956, 172; Scammel 1997, 102–3.

44. The rivalry between Neville Chamberlain and Maurice Hankey was nurtured by the fact that Hankey had a naval background and perhaps favored the
navy, while Chamberlain preferred the air force (Greenwood 1994, 19–21).

45. To diffuse the myth that Chamberlain opposed rearmament, Robert Shay (1983) argues that had Chamberlain been prime minister a year earlier (1936 instead of 1937), Britain would have been much better prepared for war by 1939. In 1937, Neville Chamberlain succeeded Stanley Baldwin as prime minister, and John Simon became the new chancellor of the Exchequer.

46. A recession in the United States further lowered the demand for British exports.

47. For this reason they also opposed the re-creation of a Ministry of Supply.

48. Parker 1975, 643–44. Chamberlain also worried about the negative political repercussions of increased taxation for additional defense spending. The government’s desire to grant tax reductions and complete the return of the wages of government employees to their pre-austerity budget levels, while at the same time balancing the budget, meant that any increase in defense spending was not welcome.

49. Free traders added that if war never came, Britain would not undermine its economy with unnecessary military spending.

50. The navy had two ongoing debates with the Treasury. The first was over the role of the navy. For the navy, Japan posed a greater threat to Britain’s interests than Germany. The First Lord of the Admiralty stressed that the entire empire in the East, from India to New Zealand, was threatened by the possibility of further Japanese expansion. Second, also related to the role of the navy, was the size (and hence funding) of the navy. The navy called for an upward revision of the existing one-power standard (adopted in 1925) to a two-power standard. Not until August 1939 did the cabinet accept a two-power standard of twenty battleships capable of taking on both Japan and a European enemy at the same time.

51. According to the agreement, the Americans would have eighteen capital ships (500,000 tons), the British would have twenty-two (600,000 tons), and the Japanese would have ten (300,000). The Coolidge Conference (Geneva Naval Conference) of 1927 met to discuss the extension of a shipbuilding ratio to vessels under 10,000 tons. Britain argued it needed cruisers to guard imperial communications. The conference ended in failure because the United States and Britain could not solve the issue over the number of cruisers.

52. Hall 1976. With this agreement, Britain unilaterally altered the naval limitation provisions of the Versailles treaty, harming relations with France and Italy. The Admiralty discounted the German naval threat. They recognized that Germany had only a limited shipyard capacity and a shortage of skilled labor, and it lacked a substantial navy (Deist 1994, 378; Scammel 1997, 102). Instead, the German naval threat was primarily seen from the dangers posed by the combination of other naval powers such as Italy and Japan.

53. Greenwood 1994, 27. On becoming prime minister, Chamberlain suspended Britain’s rearmament program until it was reviewed in light of the nation’s
financial and industrial resources. The review was conducted by Inskip, whose first report called for a policy of “rationing” or restrictions on the aggregate sum for each service in order to force each department to prioritize its individual programs.

54. In fact, Peden (1979, 161–67) argues that the navy had been quite successful in building toward the New Standard, despite Treasury control.

55. Peden (1979, 172) notes that after 1935, even the army was unable to spend its entire allocation because of manufacturing delays.

CHAPTER 5

1. On the debate of when to date the beginning of Spain’s decline, see Kamen 1978; Stradling 1979, 179–86.

2. The United Provinces or the Dutch consisted of the seven northern provinces of the Netherlands that rebelled against Spain beginning in the 1570s.

3. Spain’s empire was referred to as the Spanish system or the Spanish monarchy.

4. Around 1620, Spain had four field armies (Flanders, Rhineland, central Europe, Italy), each around 20,000, twice as many garrison troops, 50 galleons under construction, and auxiliary naval squadrons. By 1626, Spain had 300,000 men under arms (Stradling 1981, 62).

5. Scammell 1989, 97. The Portuguese under Spain had been the major suppliers of spice to Europe, accounting for 75 percent of Europe’s spice imports. They captured the spice trade from Arab traders.

6. In this discussion, Spain includes Portugal and its empire.

7. For a discussion of the Spanish Road, see Parker 1972, 80–105.

8. Overland transport was much cheaper than ocean transport.

9. While England did support the Protestant rebellion in Germany, the deepening constitutional quarrel between Parliament and the Crown contributed to England’s growing isolation. Much of the literature that focuses on Spain’s grand strategy during this period hardly mentions the Thirty Years’ War separately, but discusses these events as part of a larger European war (i.e., the ongoing Eighty Years’ War with the United Provinces).

10. The Dutch expansion in the region was assisted by a “cold” truce between the VOC and the English EIC, allowing the Dutch to concentrate their forces against the Spanish. Under this agreement, East Indies trade was to be shared on the ratio of two-thirds for the Dutch and one-third for the English, and a joint fleet organized for protection from the Portuguese (Israel 1989, 106). The Dutch concluded this treaty because its Twelve Years’ Truce with Spain was about to end.

11. Spain’s spice trade included Malacca (in Malaysia), the Moluccas (islands of Indonesia), Bandas (islands of Indonesia), as well as Macao (China coast), Goa (India), and Ceylon. In 1605, the Dutch made their first significant breakthrough in the East Indies by capturing Ambonia and the Moluccas from the Portuguese.
Eventually, the Dutch would conquer the bulk of Portugal's empire in the Indies.

12. Parker 1979b, 189–90; Newitt 1986, 19–22. According to Israel (1989, 176), the Ambonia massacre of English troops by the Dutch marked the end of British activity in the East Indies. The effect of the war on the EIC was devastating. It required troops, armed ships, and fortresses, which greatly reduced the profitability of the Company. The EIC would become the power par excellence in the East, replacing the Dutch.

13. To the benefit of the English and French, as long as they remained neutral.

14. According to Williams (1966, 31), in England, trading companies were created as a result of mercantile pressure on the government. In France, trading companies were established as the result of government initiative. The Dutch trading companies were the product of a partnership between the government and merchant classes.

15. The truce talks between Spain and the Dutch nearly broke down over the question of Dutch commercial access to Spain's empire in the East and West Indies. This dispute was resolved by making no mention of the issue of overseas trade in the final truce (Parker 1979b, 54).


17. Furber 1976, 45. In both the Bandas and Ambonia, the chiefs that did not make oaths to the Dutch were executed. Sea power allowed the Dutch to restrict the growth and harvesting of cloves to Dutch Ambonia, with trees elsewhere destroyed by the VOC (Furber 1976, 44–48; Scammell 1989, 102).

18. Boxer 1965, 48–50. The formation of the WIC was suggested much earlier but was delayed by the conclusion of the Twelve Years' Truce.

19. Williams (1966, 15) calls it "a plundering rather than an orthodox trading venture."

20. In 1664, the newly created Company of the West Indies was modeled on the pattern of the Dutch trading companies. The plan was to increase French wealth at the expense of the Dutch empire.

21. Ambrogio Spínola, the commander of the army of Flanders, was a key advocate for the renewal of the Dutch truce and a negotiated end to the war (Lynch 1969, 76–77; Stradling 1986, 75).

22. Lynch 1992, 121–130. Up until the 1630s, scholars differ on the influence of the Cortes over the Crown. Stradling (1988, 134–50) views the Cortes as a peripheral institution of little political importance, as opposed to Elliott (1963, 328, 336), Jago (1981, 308–11), and to a greater degree, Thompson (1982). There is consensus that by the mid-1630s, the Cortes had been subjugated by the Crown.

23. Representation in the Cortes had its benefits since such towns were able to favor themselves at the expense of the unrepresented towns.

24. Brightwell 1974, 273; Israel 1982, 12. For Spain, there were three points the Dutch had to agree to for a lasting peace: recognition of Habsburg sovereignty,
freedom of worship for Dutch Catholics, and commercial access to Antwerp through the Scheldt estuary.

25. The importance of preserving Spain’s reputation as motivation for Madrid’s aggressive foreign policy is discussed by numerous authors. For instance, see Parker 1979b, 23; Stradling 1988, 78; Elliott 1989, 117–34; Parker 1994, 121–22, 126–27.

26. From the Dutch perspective, expansion in Asia at the expense of Portugal and Spain was seen as a way to divert Spanish energies and resources away from the United Provinces.

27. The Eighty Years’ War marks the decline of Antwerp as a financial center (part of the Spanish Netherlands), which was undermined by the Dutch blockade of the Scheldt during the war, while the growth of Amsterdam strengthened the United Provinces.

28. Declining returns from the Indies hit a low of 1 million ducats in 1627. According to Rasler and Thompson (1989, 93), bankruptcy was declared because the Crown had no unpledged income or no one was willing to lend additional funds. Elliott (1989, 125) claims that this bankruptcy was more of a ruse to reduce the Crown’s dependence on the Genoese bankers and to lower the high rates of interests on the asientos (loans) by encouraging competition from Portuguese businessmen. The Crown’s dependence meant that it was more difficult to reach a peace settlement with the Dutch on the issue of Brazil. The Portuguese bankers were unwilling to abandon their Brazilian empire to the Dutch.


30. By 1625, Spain captured Breda in the north, virtually surrounding the United Provinces. With the intention of inflicting damage on Dutch trade in the Mediterranean, a Gibraltar armada was established, and Gibraltar’s harbor was improved and fortified. Additional funds were allocated to the main Spanish fleet.

31. With the closure of the Spanish Road in 1638, Madrid had no choice but to reinforce the Army of Flanders by sea.

32. As the French conquest of Flanders continued, Spain and the United Provinces began to negotiate a separate peace.

33. This linked Spanish and Austrian Habsburgs, and Spain’s empire in Italy and the Low Countries.

34. Located in Cartegena, Veracruz, Callao, and Acapulco (Israel 1990, 279).

35. Israel 1982, 280; 1990, 267–70. This task force was the Armada de Barlovento, consisting of eight galleons (Lynch 1992, 257). The armada was manned and supplied by the Americas.

36. Lynch 1992, 118. Much of the copper used in the process had to be purchased from Sweden through the Dutch.

37. Meanwhile, during the decade of 1610–20, the remittances from the Americas began to decline. Instead of the 2 million of the early 1600s, the amount
fell as low as 800,000 in 1620, recovering in the 1620s, but between 1621 and 1640, 1.5 represented an exceptional year and not more than 1 million could be expected (Elliott 1989, 237). In 1640, no treasure arrived from the Indies and in 1641, the Tierra Firme fleet brought the Crown only half a million ducats, followed by an equally small return from the New Spanish fleet. In both cases, the Crown compensated half of the merchants’ returns, using vellón.

38. By a new tax on paper, salt, and ship anchorage.
39. To be raised from new taxes on sugar, paper, chocolate, fish, and tobacco, and by doubling the regular millones subsidy.
40. In the continued search for additional resources, Olivares called for the creation of a national banking system (1623) to be under royal jurisdiction. This would allow Spain to mobilize credit for the defense of the empire at relatively low rates. A chain of banks would assist the Crown in reducing its debts, lowering its dependence on foreign loans (Elliott 1963, 328). The banks were mistrusted, and the idea was abandoned in 1626. Attempts were also made to generate additional wealth by promoting the economic revival of Castile through the creation of trading companies and new industry, and encouraging trade by improving the infrastructure such as roads and the navigation of rivers.
41. The Union of Arms was designed to replace the millones.
42. Lynch 1992, 141–42. After incorporation into Spain in 1580, Portugal maintained its administrative and fiscal independence.
43. Also, see Elliott (1989, 233–34) on Spain’s increasingly technologically backward shipbuilders.
44. Spain’s loss of Portugal’s empire in the Americas, and especially in Brazil to the Dutch, put additional pressure on Spain’s relationship with the Portuguese, contributing to the revolt in 1640 (Elliott 1989, 129).

Chapter 6

2. Realists such as Gilpin (1981) and Kennedy (1987) readily acknowledge the importance of economy. This highlights the problem of treating realism as a single theory. See Brooks (1997) on the trade-off between economy and security.
3. The region had been under siege by France since 1637.
4. The revolt in Portugal opened new opportunities for a truce with the Dutch since the conflict in the Americas was no longer an issue.
5. Olivares pushed for victory in the Netherlands and an acceptable truce with the Dutch, rather than concentrating on the French front.
6. In the United Provinces, the supporters of war with Spain in Flanders were also losing ground. After 1645, Holland (especially Amsterdam, the Republic’s richest city) refused to provide funds for the war, bringing the army to a complete halt.
7. The financing of the Spanish Army of Flanders was undertaken by Amsterdam (Parker 1979a, 279).

8. According to Hall (1976, 487), London was merely hoping to limit the extent of the illegal rearmament of Germany based on the Versailles treaty.

9. According to Peden (1979, 117), by the spring of 1939 a change was taking place in Britain naval policy toward the Far East, although no decision had been made yet to totally abandon the region. In May it was recorded that only four capital ships would be available for the Far East if Britain were at war with Germany and Italy.


12. In devolving leadership to the United States, Britain no longer needed to send the main fleet to Singapore in the event of a Far Eastern war. Britain concentrated these freed-up resources in the Mediterranean (Alexandria) and its home waters. With the active support of the United States, instead of sending eight capital ships to the Far East, Britain reinforced the China Fleet by only two capital ships (Gibbs 1976, 427).

13. Both Friedberg (1988) and Kupchan (1994) agree Britain marshaled its resources from the periphery to the core prior to World War I. While Kupchan codes Britain’s response as an instance of successful adjustment, Friedberg codes it as a case of failure.

14. For instance, on the debate at the end of the Cold War over how to rank America’s foreign commitments, compare the contradictory arguments on whether “the Third World or Europe matters” by Johnson (1985–86); David (1989); Walt (1989); Van Evera (1990); and Hudson, Ford, Pack, and Giordano (1991).

15. As early as the 1890s, with the closing of the American frontier, statesmen debated whether America’s foreign policy orientation should be toward the Far East or Europe (LaFeber 1963, 407–17). The debate between the Asia Firsters and the Europe Firsters continued during the interwar period and even during the early stages of the Cold War.


17. Alternatively, Friedberg (1989a) contends that the United States can maintain a high level of military spending without reducing investment if it can lower its rate of consumption (private and public, especially entitlement programs) and divert these freed-up resources to investment.

APPENDIX

1. This discussion is based on Heath 1927; Beer 1956; Bridges 1964; Burton 1966; Roseveare 1969; Peden 1979; and French 1982a.

2. Heath 1927. Since there was no overarching Department of Defense (Ministry of Defense), each service minister prepared an annual Estimate of their expenditure (interservice coordination was handled by the Committee of Imperial Defence).