

Understretch: The Limits of Economic Power

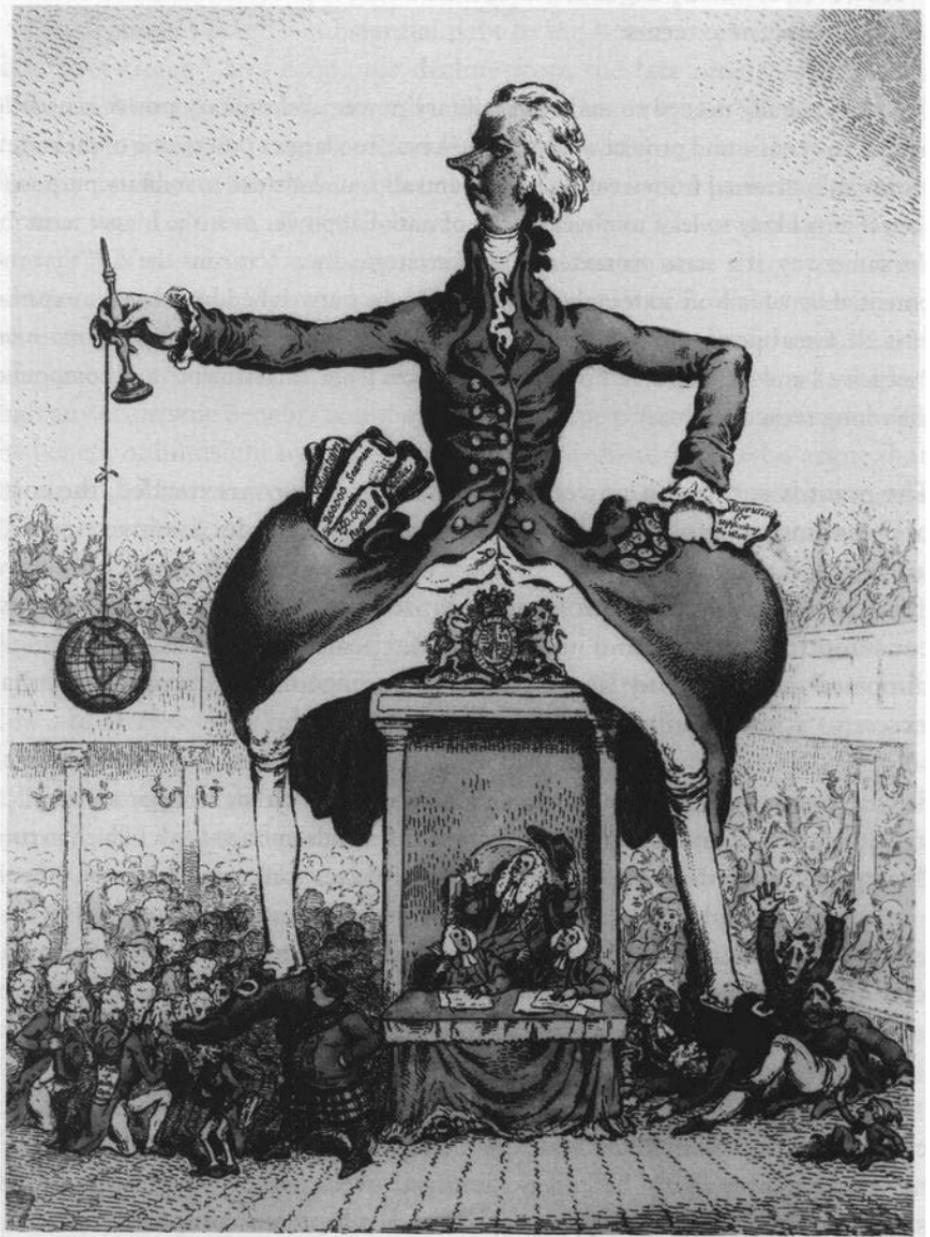
Go, bind your sons to exile
 To serve your captives' need;
 To wait in heavy harness
 On fluttered folk and wild . . .
*Kipling*¹

Why is the United States so powerful? Why is the United States not more powerful?

Many commentators would answer the first question with a single word: economics. There is, Paul Kennedy argued in his influential *Rise and Fall of the Great Powers*, “a very significant correlation *over the longer term* between productive and revenue-raising capacities on the one hand and military strength on the other.” To be sure, Kennedy warned against “the trap of crude economic determinism,” and acknowledged “geography, military organisation, national morale, the alliance system . . . individual folly . . . and extremely high battlefield competence” as factors that can influence military outcomes too. But he nevertheless insisted on “a very strong correlation between the eventual outcome of the *major coalition wars* for European or global mastery, and the amount of productive resources mobilized by each side. . . . victory has repeatedly gone to the side with the more flourishing productive base.”²

The fact remains that all of the major shifts in the world’s *military-power* balance have followed alterations in the *productive* balances; and further, that the rising and falling of the various empires and states in the international system has [*sic*] been confirmed by the outcomes of the major Great Power wars, where victory has always gone to the side with the greatest material resources.³

Thus the rise of Habsburg Spain, the Dutch Republic, the British Empire, Russia and, finally, the United States had their roots in the realm of economic



history; as did the failure of Germany and Japan to achieve the global power to which they aspired in the 1930s and 1940s.

However, Kennedy argued, the decline of great powers can also be understood in economic terms:

Wealth is usually needed to underpin military power, and military power is usually needed to acquire and protect wealth. If, however, too large a proportion of the state's resources is diverted from wealth creation and allocated instead to military purposes, then that is likely to lead to a weakening of national power over the longer term. In the same way, if a state overextends itself strategically . . . it runs the risk that the potential benefits from external expansion may be outweighed by the great expense of it all. Great powers in relative decline instinctively respond by spending more on "security," and thereby divert potential resources from "investment" and compound their long-term dilemma.⁴

The point was that if a power became strategically overextended, the costs of defending its empire would "leave less room for 'productive investment,'" leading to a "slowing down" of economic output which could only have "dire implications for [its] long-term capacity to maintain both its citizens' consumption demands and its international position."⁵ It was "increasingly difficult," according to Kennedy, "to argue against the proposition that *excessive* arms spending will hurt economic growth:"

There looms today a tension between a nation's . . . search for strategic security . . . and . . . its search for economic security, which depends upon growth (which in turn flows from new methods of production and wealth creation), upon increased output, and upon flourishing internal and external demand—all of which may be damaged by excessive spending upon armaments. . . . A top-heavy military establishment may slow down the rate of economic growth and lead to a decline in the nation's share of world manufacturing output, and therefore wealth, and therefore *power*.⁶

Kennedy left his readers in no doubt that this general proposition had specific relevance to the United States, which he claimed already ran "the risk . . . of what might roughly be called "imperial overstretch." The US, he noted, spent too much on military research and development compared with Germany and Japan, which were able to concentrate on more productive civilian R&D.⁷ The implication was clear: that Germany and Japan, relatively unburdened by military commitments, would sooner or later outstrip America economically; after which a shift in the balance of economic power would

be more or less inevitable. "In the largest sense of all," he concluded, "the only answer to the question increasingly debated by the public of whether the United States can preserve its existing position is "no."⁸

This argument owed a substantial debt to the British experience of imperial "overstretch" and economic decline from the late nineteenth century onwards. Kennedy himself pointedly remarked that maps of "Major US Military Deployment Around the World" [in the 1980s] . . . look[ed] extraordinarily similar to the chain of fleet bases and garrisons possessed by that former world power, Great Britain, at the height of its strategic overstretch."⁹ His words of warning to the United States were therefore a conscious echo of those Victorian and Edwardian critics of British imperialism, who insisted that the cost of maintaining naval bases, colonial armies and subsidized governments across a vast proportion of the globe was higher than any economic benefits could justify. The same point has been made with the benefit of hindsight by a number of economic historians, who argue that Britain could have enjoyed the advantages of free trade without the expense of formal empire; and, more importantly, that the money that taxpayers would have saved as a result of an Edwardian decolonization could have been spent on electricity, cars and consumer durables, thus encouraging industrial modernization at home.¹⁰

Kennedy's is only one of a number of economic theories of power. In his *Rise and Decline of Nations* (1982), Mancur Olson suggested that strength or weakness might have more to do with the internal structure of a country's political economy than its external commitments. It was the growth of "parochial" cartels and special-interest lobbies that tended to undermine the vitality of an economy: hence the relative success of post-war Germany and Japan, whose various vested interests had been smashed by the experience of dictatorship, total war and defeat, compared with the Britain's decline into the stagflation of the 1970s.¹¹ One somewhat counter-intuitive inference from this is that occasional military defeat may be economically preferable to consistent victory. Certainly, Olson's policy prescriptions—the "repeal [of] all special-interest legislation or regulation and . . . [the application] of rigorous anti-trust laws to every type of cartel or collusion that uses its power to obtain prices or wages above competitive levels"—are more likely to be achieved by an army of occupation than the normal democratic process.¹²

What is not clear from such economic theories of power is how far the rise and fall of states are due to a self-equilibrating or cyclical mechanism, with prosperity leading to power, and then overstretch or internal sclerosis leading inexorably to decline. In the ambitious models of Modelski and Wallerstein,

the cycles of global hegemony have a strongly deterministic character. According to the former, there have been five cycles of “relative naval power” since 1500—the Portuguese, the Dutch, two British and the American—and in each there have been four phases: “global war,” “world power,” “delegitimation” and “deconcentration.” In Wallerstein’s model, which takes a Marxist view of capitalist development, there have been four cycles since 1450—the Habsburg, the Dutch, the British and the American—and again, within each of these, four phases: “ascending hegemony,” “hegemonic victory,” “hegemonic maturity” and “declining hegemony.”¹³ However, Kennedy’s argument (like Olson’s) seems to have a policy implication: namely, that governments should try to restrain defence spending to avoid economic, and ultimately military, decline.

Kennedy has been much criticized for exaggerating the danger of decline facing the United States in the 1980s. Yet such criticisms overlook the fact that politicians in the US, and indeed throughout the NATO alliance, have apparently heeded this advice. As we saw in Chapter 1, defence spending among the Western powers has sunk to historically low levels in the years since Kennedy published *The Great Powers*. The 1997 defence expenditure to GDP ratios for the major Western powers—3.4 per cent for the US, 3 per cent for France, 2.7 per cent for the UK, 2 per cent for Italy and just 1.6 per cent for Germany—were the lowest since the 1920s, and in the French and Italian case since the 1870s. At the same time, the growth rate of the American economy has risen significantly, suggesting that hopes of a post-Cold War “peace dividend” have been fulfilled. But does that mean that the United States has solved the problem of incipient decline?

The answer to that question depends on three things: the scope of American foreign policy; the scale of the foreign opposition to it; and the use America is able to make of her unmatched economic resources. The follow-up question posed here is how far the United States and her allies now run the risk of *understretching* themselves: spending too little on their military establishments to achieve their foreign policy goals in the face of what are best described as multiple nuisances.

Under President Clinton, the aims of American foreign policy were extended beyond the defence of allied states—the number of which has increased as a result of NATO enlargement—to include the termination of civil wars in a number of politically sensitive regions, and the occasional use of military force to protect the rights of persecuted minorities in certain countries. Whatever one may think of these objectives, it is worth asking how far recent

cuts in Western defence establishments are compatible with their effective realization. The United States, it is suggested here, has no shortage of economic power. But economic power is mere *potential* if it is not harnessed. That requires not only a readiness to divert resources from civilian consumption to military use—to turn butter into guns, in the old image, or taxes into divisions. It also requires the moral resolve to make the optimal use of military resources to deter or defeat the opponents of US policy. Without legitimacy—in the case of a democracy, public support—the foreign policy of a Goliath can be thwarted by a David, particularly if there is more than one David.

THE ILLUSION OF PEACE

The disarmament of the Western powers would not matter if the chances of war were diminishing proportionately. According to one strand of liberal theory, this ought to be the case, since war is economically irrational and becomes more so as the world becomes more economically integrated.

The idea that war is obsolescent in an economically liberal world dates back to the eighteenth century. "If war enriched some of the peoples of antiquity," wrote the Physiocrat François Quesnay, "it impoverishes and makes miserable the peoples of modern times."¹⁴ In his *Perpetual Peace*, Kant agreed that the "spirit of commerce" was "incompatible with war."¹⁵ "The civil wars of Flanders," noted Adam Smith towards the end of *The Wealth of Nations*, "and the Spanish government which succeeded them, chased away the great commerce of Antwerp, Ghent, and Bruges. . . . The ordinary revolutions of war and government easily dry up the sources of that wealth which arises from commerce . . ."¹⁶ It was on this basis that Smith was critical of mercantilist policies that subordinated market forces to grand strategy. This view attracted many adherents in the nineteenth century. Though Comte conceded that in previous centuries "efforts . . . to discover and improve military apparatus . . . were not entirely without value for the progress of industry," he saw the subordination of war to industrial development as a distinctive feature of his own times.¹⁷ For Richard Cobden, peace and prosperity were mutually reinforcing: hence the title of his 1842 pamphlet, *Free Trade as the Best Human Means for Securing Universal and Permanent Peace*. Norman Angell's *The Great Illusion* (1910–1911) is a monument to the persistence of this belief. According to Angell, war was economically irrational: the fiscal burdens of armaments were excessive, indemnities difficult to collect from

defeated powers, and colonies not a source of profit. "What is the real guarantee of the good behaviour of one state to another?" asked Angell. "It is the elaborate interdependence which, not only in the economic sense, but in every sense, makes an unwarrantable aggression of one state upon another react upon the interests of the aggressor."¹⁸

Such beliefs have proved remarkably resilient in the face of repeated and bitter disappointment. On the very eve of the war over Kosovo in 1999, the cover of the British magazine *Prospect* bore the legend "The End of War?," recalling Ivan Bloch's *Is War Now Impossible?* a hundred years before. Perhaps the most hubristic passage in Thomas Friedman's *The Lexus and the Olive Tree* is his assertion that globalization "increases the incentives for not making war and increases the costs of going to war in more ways than in any previous era in modern history." To reinforce his point, Friedman propounds "The Golden Arches Theory of Conflict Prevention," according to which no two countries, both of which have at least one McDonald's franchise, have gone to war.¹⁹ Friedman's book was published on 17 May 1999, less than two months after the United States had gone to war with the Republic of Yugoslavia—apparently oblivious to the well-advertised presence of McDonald's in Belgrade. This does not make Friedman as wrong as Norman Angell, of course; not yet, at least. But he manifestly shares with him the belief that economic rationality should discourage war—a belief Angell lived to see exposed as the authentically great illusion it was.

Time and again in the twentieth century, states ignored the liberal appeal to economic rationalism by going to war. They did so even when the potential costs of defeat were huge; indeed, they did so when even the potential costs of victory were high. One possible explanation for this is simply myopia—a kind of "bounded rationality" which habitually understates the costs of war and overstates its benefits. However, a better explanation may be that in a non-democratic regime the aggregate and long-run costs of war may be irrelevant. Provided the immediate benefits of war flow to the ruling élites and the costs are borne by the unenfranchised masses, war can be a perfectly rational policy option.

GIVING WAR A CHANCE

From the point of view of an autocratic state, expenditure on war can generate a visible return in the form of booty, indemnities from vanquished states or territory (which can widen a state's tax base or natural resource

endowment)—not forgetting glory.²⁰ In some cases, such returns may even exceed the costs of achieving victory; but if the costs of war are largely borne by an unenfranchised peasantry, this may be a minor consideration.

The Ottoman Sultan Suleiman the Magnificent is said to have run a surplus of around a third of annual revenue, largely consisting of tributes from conquered territory.²¹ The French Revolution brought into being another regime that came to rely on the exploitation of conquered territory as a major source of income. By its last years, the Directory could count on the levies imposed in the occupied Netherlands for around a quarter of total revenue; altogether between 1795 and 1804 the Dutch paid some 229 million guilders to the French, more than a year's Dutch national income.²² Napoleon's campaigns of 1806–7 were not only self-financing, but covered at least a third of ordinary French government expenditure. In Italy between 1805 and 1812 fully half of all the taxes raised went to the French treasury.²³ Britain too knew how to make war pay in the nineteenth century: something in the region of 40 per cent of the total defence budget for 1842 was covered by the £5.8 million indemnity exacted from China under the Treaty of Nanking; Palmerston even boasted to the House of Commons that the war had shown a profit.²⁴ Russia was able to squeeze increasing sums of money out of Turkey in the successive peace settlements of 1829, 1878 and 1882. As proportions of Russian defence spending those sums represented, respectively, 9 per cent, 42 per cent and 115 per cent. Even the last figure was dwarfed by the indemnity wrested from China by Japan in 1895, which amounted to more than three times total Japanese military spending in that year and around double the cost of the war.²⁵

But it was Prussia which perfected the art of profitable war—made war, as Mirabeau said, its “national industry.” Frederick the Great had pointed the way ahead with the seizure from Austria of mineral-rich Silesia between 1740 and 1745. Though the costs of retaining the province in the subsequent Seven Years War proved heavy, Silesia was an asset which yielded a healthy industrial return for two centuries. Bismarck's victory over the German Confederation in 1866 was also close to self-financing: while total Prussian military spending in that year was at most 111 million thaler, the fruits of victory—in addition to the annexed territory of Holstein, Hanover, Hesse-Cassel, Nassau and Frankfurt—included indemnities worth 40 million thaler from Austria, a further ten from Saxony, six from Frankfurt, to say nothing of the seized treasure of the deposed king of Hanover, worth 16 million thaler, and a smaller sum from Württemberg.²⁶ Probably the most profitable war of the entire nineteenth century was that waged by the Prussian-led

North German Confederation against France in 1870. The immense sum of 5 billion francs imposed as part of the 1871 peace agreement—equivalent to around a quarter of French GDP—amounted to four times the previous year's Prussian defence budget. In addition the French had to pay 200 million francs (a ransom from the city of Paris) and all the costs of the subsequent occupation of northern France.²⁷

It is of course true that such profits—including “reparations,” to use the twentieth-century term designed to attach blame as well as hardship to the losers—have more usually been less than the costs of the war that secured them (not to mention the effort of collecting them). About a third of Roman revenue in the time of the Emperor Augustus came from tributes from Egypt, Syria, Gaul and Spain; but the cost of maintaining the Roman army at that time consumed roughly half the total revenue.²⁸ Between 1548 and 1598 the income from Spain's American conquests amounted to 121 million ducats, between 12 and 24 per cent of all Castilian revenues. But in the same period the annual costs of war waged by Spain outside its own territory rose by a factor of at least four. The fighting in the Netherlands alone consumed some 218 million ducats a year.²⁹ In the War of the Spanish Succession, contributions from occupied territory covered not much more than two-fifths of the total costs of the French army.³⁰ Even the profits of France's revolutionary and Napoleonic wars were ultimately consumed by the high costs of her defeat between 1812 and 1815. According to one recent estimate, the indemnity and other costs imposed on France by the victorious Allies after Waterloo—around 1.8 billion francs—amounted to around a fifth of French annual GDP.³¹ Large though this sum was, it represented a small fraction of the costs France's enemies had incurred in the preceding two decades of war. The equivalent in sterling terms (£78 million) was only slightly more than the amount Britain had paid to her continental allies in subsidies between 1793 and 1815 (£66 million).³²

As for the reparations imposed after twentieth-century victories, these have come nowhere near covering the costs of war. The indemnity levied by Germany on Russia under the terms of the Treaty of Brest-Litovsk in 1918 was around \$1.4 billion; a huge sum, but only a fraction of the total cost of the war to Germany, which was around \$20 billion.³³ The victorious Allies finally made up their minds to demand a total of \$31 billion as reparations from Germany in the London Ultimatum of 1921, though realists like Keynes only expected around \$12 billion to be forthcoming. Even that lower figure was equivalent to more than 80 per cent of German GDP.³⁴ But again this was a small fraction of the victors' total war expenditures, which

amounted to at least \$58 billion. And of course in neither of these two cases was the full amount of the indemnity ever received by the victorious side. The Germans ended up paying no more than \$4.5 billion in all between 1919 and 1932, when payments were frozen. (Under the Young Plan, they were supposed to continue until 1988.) This was rather less than they themselves managed to borrow from the United States and never repay—a reflection as much of German guile in feigning impecuniousness as of Allied lack of resolve.³⁵

Yet the experience of the inter-war period did nothing to dissuade Germany, Japan and Italy from attempting territorial and financial predations again in the 1930s and 1940s. The Japanese occupation of Manchuria and the later German occupation of most of continental Europe were among the most ruthlessly exploitative in all history. As a proportion of German GNP, the revenues extorted from occupied territory rose from 3 per cent to a peak of 16 per cent in 1943.³⁶ Once again, this was manifestly far less than the cost to the German economy of waging war. The Allies had failed to collect the spoils of war after 1918 by being too lenient. By being too harsh, however, the Germans shrank the very economies they sought to mulct. On the other hand, leading Nazis (Göring in particular) accumulated immense private fortunes from plundering the regime's internal and external foes. Even a war that ultimately ends in defeat can make sense to the élites of a dictatorship who want a short but merry life. To put it differently: the dictator's time-horizon is shorter than that of a constitutional regime. If ever men discounted the future heavily, it was those who spoke of a "thousand-year Reich."

One lesson the Western powers drew from the failure of reparations in the 1920s was to aim lower in 1945: the total amount demanded from the defeated Axis powers was just \$7 billion. This should be compared with a figure for total US war expenditure of \$275 billion, to say nothing of Britain's \$91 billion.³⁷ And of course the Americans thought it prudent to assist both Western Europe (including West Germany) and Japan with post-war economic reconstruction: Marshall Aid remains a rare example of "reverse reparations." The Russians tried to recoup some of their war costs by first skinning and then milking their zone of occupation in Germany; once skinned, however, the cow did not yield much milk.³⁸

For democracies, then, the lesson of history seems clear: war does not pay. The economic costs of war are always likely to outweigh the benefits of subsequent reparations. Indeed, if the objective of post-war policy is to conciliate—or indeed to democratize—the vanquished state, it is advisable to

subsidize rather than to penalize. But an autocratic ruler might not draw the same conclusion. The costs of annexing Kuwait turned out to be very high; but that did not stop Saddam Hussein from trying. Like the dictators of the 1930s and 1940s, the Iraqi leader has no qualms about passing the costs of his failed adventures on to his people, so long as he and his cronies are not materially worse off. And indeed they are not; since, unlike Hitler and Mussolini, Saddam Hussein has not been toppled from power.

THE CHANCE OF VICTORY

A further reason why non-democratic regimes continue to wage wars is that military outcomes are *not* strictly determined by comparative economic advantage. Economic inferiority can in fact be compensated for by superior strategy, operations and tactics. It can also be compensated for by superior mobilization and morale. What war makes clear is that power is *not* exclusively economic, especially over the short run. War obliges peacetime winners to compete under unfamiliar rules. At least in the early phase of a war, the ability to destroy counts for more than the ability to produce. That is precisely the appeal of war to peacetime losers.

The best-known modern wars have of course been won by the economically superior side. The Revolutionary and Napoleonic wars, the Crimean War, the American Civil War, the First World War, the Second World War and the Korean War were all won by the side with the bigger share of total word output. And to that list must be added more recent wars: the Falklands War, the Gulf War and the Kosovo War. All these outcomes would seem to confirm Kennedy's hypothesis in *The Great Powers*. Yet there are significant exceptions to the rule: think only of how Vietnam humiliated France, America and China; and how Russia came to grief in Afghanistan.

For most of the eighteenth century Britain appears to have had a smaller economy than that of its principal foe France. In 1788, according to modern estimates, French GNP was more than double British; the French population nearly three times larger.³⁹ Yet despite being economically inferior, Britain was able to mobilize more men and ships at lower relative cost than her rival.⁴⁰ Thanks in large part to the superiority of British fiscal institutions, the ratio of British to French warships rose from 1.3:1 in 1780 to 3.5:1 in 1810.⁴¹

There are nineteenth-century examples too. In 1866 the Austrian-led German Confederation had nearly double the number of men under arms than

Prussia and her sole ally Mecklenburg, more than double the population and spent four times as much on defence. Still Prussia won. That victory has sometimes been attributed to economic factors: Prussia's superior railways or higher iron and steel production. The reality is that these played a minimal role in the battle of Königgrätz. In 1870 too, France had the advantage over Germany in terms of military personnel, population and military expenditures. Yet France lost. In the Russo-Japanese War, Russia enjoyed a massive economic advantage: double the amount of military expenditure, treble the population, nearly four times the energy consumption, nine and a half times the military personnel and thirty-two times the iron and steel production. Japan won.⁴²

Nor should we forget the enormous achievements in destruction and conquest of the German-led coalitions in the two world wars. Of course, Germany and her allies lost in the end. Nevertheless, the extent of the destruction they were able to wreak serves as a salutary reminder that economic disadvantage can be compensated for by military capability and efficiency in mobilization. It is fortunate indeed that victory in war does not go to the side that inflicts the highest number of casualties: for in both wars the "net body count" went heavily against the Allied side, despite the fact that the Allies enjoyed overwhelming economic superiority.

At the beginning of the First World War, the differential between the Entente Powers and the Central Powers in terms of GNP was at least 60 per cent. In terms of Kennedy's measure of "industrial potential," the ratio of advantage to the Entente was around 1.5 to one. In terms of population, the ratio of advantage was a massive 4.5 to one. Moreover, Germany's net national product contracted by around a quarter during the war, while the economies of Britain and Italy achieved real growth of the order of 10 per cent between 1914 and 1917, and Russian output rose 20 per cent in the three years to 1916. Though the index of industrial output for Britain shows a fall of the order of 13 per cent, for Germany the figure is 31 per cent. German steel output fell by 14 per cent; in Britain it rose by 25 per cent. German grain production slumped by nearly half between 1914 and 1918; in Britain it rose. This was partly due to the impact of the British naval blockade and interference with German trade with neutrals, which reduced German imports (including those of fertilizers) by more than the German U-boats could cut British imports. The Germans also lost a large part of their merchant marine and overseas investments. Lack of access to external finance and the relative weakness of the internal capital market led to a greater reliance on monetizing short-term government debt and a larger monetary

expansion than in Britain. By these measures, it could be said, the defeat of the Central Powers was economically inevitable.

Yet the First World War was not a foregone conclusion. Germany and her allies managed to kill 35 per cent more enemy soldiers than they lost of their own men: a "net body count" of approximately 1.4 million. Their military superiority was sufficient to defeat Serbia (in 1915), Romania (in 1916), Russia (in 1917) and very nearly Italy too. The French army was brought to the point of mutiny in 1917; and the British were forced to fall back on the Americans for economic and ultimately military support. This was in large part due to German military superiority, which was only slowly and painfully eroded; but it was also due to a relatively successful response to the organizational challenges of total war on the home front. The Germans allocated labour more efficiently than their enemies. Britain allowed vital skilled workers to volunteer for front-line duty and did not bring as many women into the workforce as the Germans. The Germans also managed to discipline labour better: wages did not rise ahead of output and fewer days were lost to strike action. Finally, it seems clear that the imperial regime—despite the shortcomings of the Kaiser himself—retained legitimacy in the eyes of a majority of its subjects until remarkably late in the war. It was only in August 1918, when it was clear that Germany could no longer win the war, that the morale of the German army began to crumble, a shift manifest in the tenfold increase in the number of prisoners taken by the British. And it was not for another three months that the domestic situation, so often stressed by historians as the key area of German weakness, slid into revolution.⁴³

The Second World War witnessed an even more impressive attempt to transcend economic disadvantage by means of mobilization. Although the combined GNP of what became the Allied powers in 1939 exceeded those of the future Axis powers by some 40 per cent, while the Allies' population was 170 per larger, the Axis powers were able to achieve far greater territorial expansion than the Central Powers had achieved in the First World War; to kill many more soldiers and civilians of enemy states; and to resist the military alliance against them for longer. This can only partly be explained in economic terms. While it is true that the German economy grew during the war years rather than contracted as it had after 1914, this was more than compensated for by the growth of the American economy.⁴⁴ By any measure of armaments production, the Axis was comprehensively outproduced, by ratios ranging from around 3 to 1 (rifles and machine guns) to more than 5 to 1 (mortars and major naval vessels).⁴⁵ As in the First World War, German war finance relied more than British on monetizing short-term debt, with

consequent inflationary pressure (cash in circulation grew by a factor of 2.6 in Britain during the war, compared with a sevenfold increase in Germany).⁴⁶ The only reason the official German cost-of-living index had risen by less than the British by 1944 was the harsh enforcement of price controls.

Nevertheless, the Axis powers managed to kill nearly two and a half times more of the other side's armed forces than they lost themselves: a net body count of over eight million. If civilian fatalities are included, the extent of Axis murderousness is even more astounding: the civilian death toll on the Allied side was more than eight times higher than on the Axis side. The total Allied death toll was five times higher: a net body count of nearly 38 million.⁴⁷ Moreover, as Richard Overy has observed: "No rational man in early 1942 would have guessed at the eventual outcome of the war."⁴⁸ For by that date the Axis powers were, thanks to their conquests, on "more or less equal terms" in terms of overall pre-war GNP—and only at a slight disadvantage in terms of population (a differential of about 20 per cent in the Allies' favour, though the Allies were less able to mobilize men on the periphery of their territory).⁴⁹ True, the Allies controlled much more of the earth's surface (the territorial ratio was still more than six to one). But on the decisive Eastern Front the Germans achieved an economic superiority over the Soviets in 1941 and 1942. Nor was there a significant technological gap at this stage in the war.⁵⁰

The principal strength of the Axis (Italy apart) was military: the ability to mobilize high proportions of men and material *earlier* than their enemies and then take full strategic advantage of operational and tactical superiority. Storm-troop tactics; more effective co-ordination of infantry, artillery, tanks and air forces in offensives; the defence in depth; greater flexibility of the chain of command: these were just the most obvious respects in which Germany (and to a lesser extent Japanese) troops were able to outfight economically superior opponents in the initial phases of the European and Asian wars. Nor was it only fighting men who were mobilized. More women entered the German and Japanese workforce during the war than in Britain and America (in 1944, 51 and 42 per cent, respectively, compared with 31 and 30).⁵¹ It was a hallmark of the improved efficiency of Hitler's war economy compared with Hindenburg's that Albert Speer was able—despite the disruptive effects of British and American bombing—to raise German real GDP by 1944 to a level 25 per cent higher than in 1938. Moreover, the popular legitimacy of the Third Reich appears to have been more durable than that of the Second Reich, though debate continues as to how far Germans fought on in 1944–5 because of coercion rather than propaganda (or spontaneous zeal). The drastic

increase in the use of the death penalty in the years after 1941—some 11,000 executions were ordered by the civilian courts, and 20,000 by the military courts—suggests that coercion became increasingly important after the failure to defeat the Soviet Union, though a high percentage of those executed within the Reich in this period were in fact foreign slave labourers, not “ordinary Germans.”⁵²

The military performance of the totalitarian regimes in the Second World War provides sobering evidence of what can be achieved by all-out economic, military and cultural mobilization. The fact that it took another totalitarian regime to defeat the Third Reich in the crucial East European theatre speaks for itself. True, the Soviets would have found a war against Nazi Germany harder to win by 1945 without the British and American air and land contribution in Western Europe. But it is worth remembering that American economic aid to the Soviet Union amounted to just 5.6 per cent of Soviet net material product between 1942 and 1945.⁵³ In purely economic terms, the two dictatorships were quite evenly matched; indeed, in terms of GDP, the Soviet Union fought back to victory from a 20 per cent disadvantage in 1942.

In war, in other words, autocratic regimes appear to enjoy an advantage over liberal democracies which in the short run can significantly reduce, if not altogether eliminate, any economic disadvantage. They seem able to impose greater sacrifices on both their civilian and military populations. Ultimately, the resource gap was too great—and strategy too flawed—for Germany to win either world war; but that should not detract from the way ruthless mobilization narrowed that gap and made victory at least conceivable.

A DEMOCRATIC PEACE?

From all this it is tempting to infer that economic liberalism by itself may not be enough to abolish war; democratization may be just as necessary, since in theory democratic states are less likely to go to war than autocratic states. This argument also dates back to the Enlightenment. According to Kant, “if . . . the consent of the citizens [of a republic] is required to decide whether or not war should be declared, it is very natural that they will have great hesitation.” This is because war “would mean calling down on themselves all the miseries of war, such as doing the fighting themselves, supplying the costs of the war from their own resources, painfully making good the ensuing devastation, and . . . having to take upon themselves a burden of debts which will embitter peace itself and which can never be paid off on account of the

constant threat of new wars.” Such calculations do not concern an autocrat, however, “for the head of state is not a fellow citizen, but the owner of the state, and war will not force him to make the slightest sacrifice so far as his banquets, hunts, pleasure palaces and courts are concerned.”⁵⁴ True, Kant took care to emphasize that his argument applied to republics, not to democracies.⁵⁵ But modern researchers have tended to blur the distinction. In other words, democracies are “constrained by representation.”⁵⁶

There is no doubt that there is a close correlation between democracy and defence/GDP ratios: less democratic states tend to spend significantly more on the military.⁵⁷ It is also true that, when the unit of analysis is the “dyad” or pair of countries, war—or indeed the threat of war—is less likely to occur between two democratic states than between a democracy and an autocracy.⁵⁸ On this basis, “if all states should in the future become democratic, there would be little war.”⁵⁹ However, when countries are studied individually, democracies emerge as just as likely to become involved in war as autocracies. There is also some evidence that pairs of autocracies will tend to avoid war with one another, much as pairs of democracies do.⁶⁰ Most problematic of all for the “democratic peace” theory is the evidence that countries at an early stage of democratization seem exceptionally prone to involvement in wars.⁶¹ One possible explanation for this is that democratization seems to be associated with political fissiparity, as we saw in the previous chapter. A last—and perhaps fatal—difficulty for the “democratic peace” thesis is the absence of any correlation between democratization, as quantified in Chapter 12 (Figure 40), and the actual incidence of war, as quantified in Chapter 13 (Figure 44).

THE BENEFITS OF MILITARISM

There is a final reason why military aggression is unlikely to die out: namely, that high military spending is not necessarily as economically detrimental as Kennedy suggests. Empirical evidence in support of his view is in truth rather scanty.

In a footnote, Kennedy gives a more precise definition of what he means by “excessive” military spending. “The historical record,” he states, “suggests that if a particular nation is allocating *over the long term* more than 10 per cent (and in some cases—when it is structurally weak—more than 5 per cent) of GNP to armaments, that is likely to limit its growth rate.”⁶² Great Britain, however, became the “first industrial nation” at a time when its

expenditure on defence was above that threshold: between 1760 and 1810 it averaged 11 per cent of national income.⁶³ More paradoxically, as Kennedy himself admits, British economic and strategic decline first manifested itself at a time when British defence spending was relatively low. Indeed, his castigation of British strategy in the first half of the twentieth century is strangely contradictory. On the one hand, he is critical of inter-war governments for spending too little on defence while “controlling one-quarter of the globe but with only 9 to 10 per cent of its manufacturing strength and ‘war potential.’”⁶⁴ On the other, he repeatedly attacks what he calls “the British way of war,” meaning reliance in a European war on “colonial operations, maritime blockade, and raids upon the enemy’s coasts” as opposed to a “continental commitment” of troops. “The raiding strategy seemed cheaper . . . but it usually had negligible effects and occasionally ended in disaster . . . The provision of a continental army was more expensive in terms of men and money, but . . . was also more likely to assist in the preservation of the European balance.”⁶⁵ It is not clear from this what Kennedy thinks Britain should have done: while some governments are damned if they spend too much on defence, others are damned for spending too little.

Moreover, it is not without significance that the biggest American boom of the twentieth century (in terms of real GNP growth) occurred not in the much-vaunted Clinton era, but during the Second World War. The average annual growth rate of the US economy between 1942 and 1945 was 7.7 per cent, exactly two percentage points higher than for the period 1995–8. It is also striking that American defence expenditure exceeded 5 per cent of GNP in every year from 1942 until 1990 except the years 1948 and 1976–9 (though it remained well below Kennedy’s 10 per cent maximum for a structurally strong state). Taking the longest possible view, there appears to be no long-run statistical correlation—negative or positive—between defence expenditure as a percentage of GDP and real growth for either Britain and the United States.⁶⁶ If anything, the relationship is very slightly positive in the American case. Nor is there any correlation when time-lags of five or ten years are introduced.

Finally, a cross-country survey of average defence budgets in relation to average growth for the years 1990–1997 reveals only the slightest negative correlation between the two. Admittedly, only four out of the 59 countries in the sample spent more than 5 per cent of GDP on defence; one experienced negative growth (Russia), and two of the four had less than average growth. Israel, however, spent 9.7 per cent of GDP on defence—a fraction

below Kennedy's threshold—but enjoyed growth of 5.8 per cent, more than twice the global average.⁶⁷

After the collapse of the Soviet Union, Kennedy modified his position; but only slightly. The issue, he argued in *Preparing for the Twenty-first Century* (1993), was not “whether high defence spending causes economic slow-down,” but rather how the economy was structured. “If [an] economy is growing briskly,” he argued, “possesses a flourishing manufacturing base, is at the forefront of new technologies, invests heavily in R&D, is in balance . . . on its current accounts, and is not an international debtor, then it is far better *structured* to allocate 3 or 6 or even 9 per cent of its GNP to defence than if it lacks those advantages.” Kennedy conceded that the United States was by no means weak on all these scores, but added that “the single most important fact” was the slowing of the US growth rate since the 1950s and 1960s. An eye-catching figure contrasted average annual growth of over 4 per cent in the 1960s with a miserable -0.5 per cent in 1991.⁶⁸ However, an updating of the data shows that average annual growth of GDP in the 1990s was 3.3 per cent: higher than in both the 1970s (3.2 per cent) and the 1980s (2.8 per cent).⁶⁹

Nevertheless, the hypothesis remains an attractive one that the *Soviet* economy ultimately crumbled under the weight of excessive defence expenditure in the 1980s. Superficially at least, it seems plausible that it was the Soviet Union which was suffering from Kennedy's “overstretch,” not the United States. As we saw in Chapter 1, estimates of defence spending as a proportion of GNP for the Soviet Union in the mid-1980s were as high as 16 per cent, at a time when the equivalent American figure was just 6 per cent. It has even been argued that the increase in American defence expenditures under Ronald Reagan led to the West's ultimate victory in the Cold War by pushing the Soviet Union over the threshold of sustainable defence expenditure. If so, then Reagan's policy has paid a tremendous dividend: though to call it a “peace dividend” is a misnomer, for it was the hawks not the doves who won it. A simple calculation suffices to illustrate the point. Between 1981 and 1989, under Presidents Reagan and Bush, the annual American defence budget averaged \$378 billion (adjusting for inflation): \$100 billion a year higher than under President Carter. It was this increase which aroused so much anxiety among Reagan's critics and the prophets of national decline. In the 1990s, however, real spending on defence fell back to just \$270 billion (the 1998 figure), largely as a result of the collapse of the Warsaw Pact and the Soviet Union. If the Pentagon's conspicuous consumption contributed anything towards the Soviet regime's external and internal

crisis, then the real cost of Reagan's policy was rather lower than was claimed in the 1980s. In fact, the change of policy has cost Americans around \$70 billion a year, or slightly less than 1 per cent of GNP.⁷⁰ This was not much to pay for the defeat of what was in many ways an "evil empire," just as Reagan said.

Then again, there are those who would maintain that the Soviet Union collapsed because of its own internal contradictions, not because of Reagan's defence spending. Certainly, the Strategic Defence Initiative does not seem to have played as big a part in it as Reagan himself was led to believe.⁷¹ The reality was that a planned economy had been the right model for waging a full-scale conventional war against the Germans in Eastern Europe, but the wrong model for sustaining an arms race with the remote United States. The Soviets might conceivably have won a hot war once they had established superiority in warheads.⁷² In its war with Nazi Germany, the regime had already proved its ability to withstand millions of civilian as well as military casualties; and in the event of a hot war, it would have been much less susceptible than its American opponent to popular pressure for peace. Mass civilian death would have been a new experience for Americans, but not for Russians. However, the decision not to risk nuclear war forced the Soviets to compete in an open-ended arms race. In this, the advantage lay not with the side capable of achieving the maximum possible military mobilization in the short run—the key to victory in a hot war—but with the side capable of paying for its armaments without stifling civilian consumption and living standards *in the long run*.

From 1950 until around 1974, the Soviet Union enjoyed real GNP growth rates comparable with those of the United States; indeed in the late 1950s and late 1960s they may even have been higher. But from the mid-1970s Soviet growth lagged behind. As we have seen, high absolute levels of defence expenditure became steadily less and less burdensome to the United States as growth increased in the 1980s. But the Soviet defence burden rose inexorably because the arms race accelerated while the planned economy stagnated. To put it simply, between 1980 and 1989 the United States was able to increase defence spending in real terms by around 50 per cent; but per capita consumption in the same period rose by more than 20 per cent. The equivalent figures for the Soviet Union were 15 per cent for real defence spending and barely 5 per cent for per capita consumption. Why was this? Partly it was because in the Soviet system there could be no spin-offs from military research and development, because there was no technology trans-

fer to the private sector; indeed, there was hardly any private sector at all. When Mikhail Gorbachev gambled on economic “restructuring” in the hope of closing the economic and technological gap between East and West, he unwittingly caused the output of the planned economy to collapse; and the political “transparency” introduced at the same time merely revealed that the system had lost popular legitimacy. In that sense, Reagan’s defence budgets were a symptom of American superiority, not a cause of the Soviet collapse. This suggests that high levels of military expenditure are not economically damaging *per se*. Under the right circumstances, rising public expenditure on the technology of defence and destruction can co-exist with rising consumption: the magic combination of guns plus butter—or, to be precise, missiles plus Big Macs.

But there is also a fiscal explanation for the divergence of the two systems, so different from the convergence predicted by so many contemporary commentators. To revert to the theme developed in Chapter 4, a crucial advantage enjoyed by the United States was the ability to finance increased arms spending by selling bonds to the public. The big rise in the federal debt under Reagan may have worried the prophets of overstretch; but as a way of paying for increased military spending, borrowing has the benefit of “tax smoothing” and hence minimizes economic distortions. What Kennedy overlooked was the ease with which the United States financed its increasing debt burden. At its peak in 1991, US net government interest payments amounted to a trivial 2.2 per cent of GDP. By contrast, after the suspension of domestic bond sales in 1957, the Soviets relied on much more distortionary forms of finance to cover their rising defence budget (such as credits to state enterprises and forced loans from ordinary savers), and these almost certainly played a part in the economy’s declining productiveness. When Moscow belatedly turned to the international capital markets under Gorbachev, it had to pay a substantial risk premium (though it was not high enough, as the lenders later discovered to their cost). A good parallel can be drawn here with Britain’s victory over *ancien régime* France in the eighteenth century. In each case, the state with the most developed bond market had the deeper pockets and hence could sustain its military effort at a relatively lower economic cost.⁷³

THE PRECAUTIONARY MOTIVE

Of course, a true cost-benefit analysis of defence spending must go beyond simply adding up the burden represented by the military budget and offsetting

the value of any positive spin-offs from R&D. For to estimate the economic value of a given defence policy it is necessary to compare actual costs with the potential costs of doing less or more. As so often in historical analysis, only a "counterfactual" approach will get us close to a sufficient answer. As comparisons have been made in the past between the *Pax Britannica* and the *Pax Americana*, the United Kingdom and the United States will be the focus of what follows.

Was the British Empire "a waste of money," as strict liberals at the time and since have argued? It seems unlikely. No doubt it is true that, in theory, "the benefits from imperial trading blocs were sub-optimal solutions compared to open international trade;"⁷⁴ but in practice "open international trade" has not been naturally occurring. It has been asserted that after around 1846—though not apparently before—Britain could have withdrawn from Empire with impunity, and reaped a "decolonization dividend" in the form of a 25 per cent tax cut.⁷⁵ Yet the challenges to British hegemony from protectionist rivals were in many ways greater in the late nineteenth and early twentieth century than in any previous period. Abandoning formal control over Britain's colonies would almost certainly have led to higher tariffs being erected against British exports in their markets, and perhaps other forms of trade discrimination. The evidence for this need not be purely hypothetical: it is manifest in the highly protectionist policies adopted by the United States and India after they secured independence, as well as in the protectionist policies adopted by Britain's imperial rivals France, Germany and Russia between 1878 and 1914. Britain's military budget before the First World War can therefore be seen as a remarkably low insurance premium against international protectionism.⁷⁶ And the economic benefit of enforcing free trade could have been as high as 6.5 per cent of GNP.⁷⁷ (Another way of looking at the problem is to consider the benefits Britain derived from the Empire when the world became even more protectionist in the 1930s: in that decade the share of British exports going to the Commonwealth and colonies rose from 44.4 to 47.6 per cent; the share of her imports coming from there rose from 30.2 per cent to 39 per cent.⁷⁸) In any case, the burden of defending the Empire before 1914 was relatively low (see Chapter 1): as a proportion of net national product, the British defence budget was just 3.2 per cent in 1913, less than that of Russia, France, Italy and Germany.⁷⁹

On the other hand, it is far from certain that the cost of the First World War to Britain was justified in view of the relatively limited threat posed to British interests by German aggression on the continent in 1914. The crucial

defect of British policy in the decade before the First World War was that it identified a serious German threat to the continental status quo but made no serious attempt to prepare to check that threat by the only viable means: the creation of a comparably large land army. By going to war before that army was ready, Britain condemned herself to four extremely expensive years of learning “on the job” how to fight a modern land war.⁸⁰ The earlier adoption of conscription—which was ruled out not by its cost, which was affordable, but by liberal ideology—might well have deterred the Germans from risking war in 1914.⁸¹

By contrast, the costs of British involvement in the Second World War need to be compared with the hypothetical costs of either defeat by, or compromise with, Nazi Germany. Given what we know of Hitler’s plans for global domination, it is highly unlikely that Britain would have been better off seeking peace in 1939 or 1940.⁸² On the other hand, it seems plausible that an earlier and more bellicose reaction to Hitler’s demands for Czech territory in 1938 might have been a better strategy than the eleventh-hour guarantees to Poland and the other East European countries issued in 1939 after the partition of Czechoslovakia. None of the arguments advanced by Chamberlain’s defenders succeeds in showing that appeasement was the only policy available to the government. Least persuasive of all are the arguments that higher spending on defence would have destabilized the economy, creating labour shortages and other problems. The dangers of a mild upturn in inflation in 1937–8 were infinitesimal compared with the dangers of complete isolation in the event of a Nazi victory on the continent in 1939–40. It was the most false of economies to “play for time” against Hitler in 1938: between Munich and the outbreak of war, Germany’s position was strengthened no less than Britain’s, and in some respects (such as the conclusion of the Nazi–Soviet Pact) more so.

British foreign policy in the twentieth century was therefore punctuated by a sequence of grave failures of deterrence. Neither in the 1900s nor in the 1930s did Britain succeed in convincing Germany and her allies that the risks of a war against Britain were excessive. In other words, the root cause of Britain’s problems was *understretch*: the failure to spend enough to deter a potential aggressor, which led inexorably to the need for far more expensive full-scale war just a few years later. (Something similar happened, albeit on a much smaller scale, with respect to the Falkland Islands prior to an Argentine invasion.) It is at least arguable that Britain would have declined less rapidly in the twentieth century if successive governments had been willing to spend more on deterring potential enemies. Only after the debilitating

costs of two world wars did defence cuts and decolonization become imperative.

Does the British experience of strategic vulnerability through understretch have any relevance to the United States today? There are of course fundamental differences between the two powers, a number of which were pointed out in Chapter 9. Britain was a capital exporter; America is a capital importer. Britain "sent forth the best she bred;" America sucks in immigrants.

Plainly, it is highly unlikely that any state would contemplate a direct attack on the United States in the foreseeable future, though a terrorist campaign against American cities is quite easy to imagine. Even after big defence cuts, the United States is still the world's only superpower, with an unrivalled financial and military-technological capability. Its defence budget is fourteen times that of China and twenty-two times that of Russia. The real issue, however, is whether or not any state is capable of attacking one of America's *allies*—or indeed of using violence anywhere in the world where American interests are deemed to be at stake. In this context, it is significant that while the United States, Europe and the countries of the former Soviet Union have been disarming since the mid-1980s, other parts of the world have been rearming. According to the Stockholm International Peace Research Institute, arms exports to north-east Asia and the Middle East have risen significantly since 1994. Some Asian powers now possess a nuclear capability (China, India and Pakistan); while Iraq continues to resist international efforts to curb its chemical and biological weapons program. The Pentagon estimates that at least twenty countries possess either short- or medium-range ballistic missiles.⁸³

The shifting military balance is most easily illustrated by comparing military budgets over the past decade (see Table 23). The difference between East and West illustrated in the table is worth pondering. In North America, Europe and the former Soviet Union, there have been dramatic cuts in real expenditure since 1989: the US budget is down by a third, Britain's by a quarter, and Russia's by more than 90 per cent. Among American countries, including the smaller ones not shown in the table, only Mexico and Brazil have increased their military spending; in Europe, only Finland, Greece and Turkey. But in the Middle East, every state except Egypt (and Oman) has increased spending, in the case of Iran by as much as 70 per cent. And the trend is even more pronounced in Asia, where every major power has cranked up its military budget: by 70 per cent in China, by more than 100 per cent in Singapore.

Table 23. Military expenditure of the world's principal powers (in US \$billions, at constant 1995 prices and exchange rates)

	1989	1998	% change
Americas			
US	373,618	251,836	-32.6
Canada	10,965	6,999	-36.2
Brazil	9,220	13,125	+42.4
Europe			
France	52,099	45,978	-11.7
Germany	53,840	38,878	-27.8
Greece	5,001	6,211	+24.2
Italy	22,846	22,809	-0.2
Netherlands	9,907	7,859	-20.7
Russia	240,000	11,200	-95.3
Spain	10,164	8,241	-18.9
Sweden	5,345	5,337	-0.1
Turkey	4,552	7,920	+74.0
UK	42,645	32,320	-24.2
Asia			
China	9,900	16,900	+70.7
Japan	47,409	51,285	+8.2
South Korea	11,253	15,042	+33.7
Taiwan	8,886	10,620	+19.5
Australia	7,320	8,299	+13.4
India	7,756	9,842	+26.9
Middle East			
Israel	7,515	8,540	+13.6
Saudi Arabia	14,912	17,142	+15.0

Source: SIPRI Yearbook, 1998 (showing only countries with budgets over \$5 billion and for which figures are available).

This is not to imply that increased defence spending *necessarily* increases the risk of war. If two potential adversaries both increase their military budgets, the increases may simply cancel each other out. The point is merely that the rush to disarm which has been evident since 1989 in most NATO and former Warsaw Pact countries has not happened in Asia. Moreover, the table shows only the world's biggest military spenders. When the same calculation

is done for smaller states, some important regional divergences emerge. In Africa, Algeria, Botswana, Burundi and Uganda have all substantially increased their defence spending in real terms, while Ethiopia, South Africa and Zimbabwe are among the biggest cutters of spending. In Latin America, while Brazil and Mexico have increased spending, Chile and Argentina have cut by comparable amounts. And it is worth remembering that reliable figures are simply not available for the most notorious “rogue states:” Libya, Iraq, Serbia and North Korea.

COSTING KOSOVO

These differentials in military expenditure would signify less if they had not occurred at a time when the scope of US foreign policy has been widening. But as we have seen, the idea that the United States and her allies have the right to intervene militarily in the internal affairs of a country to protect the rights of persecuted minorities implies a radical extension of the American role as “global policeman.” Is this a role the United States can afford to play?

One way to begin answering that question is to work out what it has cost since 1999 to get the Serbs out of Kosovo and the Albanians back in. The answer is in fact not much. According to estimates by Jane’s defence analysts, Operation Allied Force—which involved flying 36,000 air sorties, dropping 25,000 bombs and assembling a land force numbering close to 50,000 men—cost NATO £4.8 billion, or £62 million a day. However, this was only the first item on the bill. To arrive at the true cost of the war, it is necessary to add in three further items: the costs of relief to refugees from Kosovo, which ran at around £6 million a week in the immediate aftermath of the war (making around £24 million in all, given the unforeseen speed of the refugees’ return); the costs of reconstructing the province, which the European Union estimated at £2.5 billion;⁸⁴ and the costs of occupying it with a 50,000-strong army for the foreseeable future, around £10–£15 million a year for Britain alone. £4.8 million of that figure is the UK’s contribution to the international mission in Kosovo (UMIK), the total budget for which is £77 million.⁸⁵ Assuming that a force will have to stay in Kosovo for at least five years, that brings the total cost of the war to £7.7 billion. This is far less than the cost of Operation Desert Storm, which came to £63 billion in all—though admittedly that war was effectively paid for by rich non-combatants like Saudi Arabia and Japan, who had an interest in getting Iraq out of Kuwait. Financially as well as strategically, the 1999 war represented a return to the era of low-cost gunboat diplomacy.

But what was achieved for that £7.7 billion? According to NATO estimates released in September 1999, there were direct hits on some 93 tanks, 153 armoured personnel carriers, 339 other military vehicles and 389 artillery pieces and mortars.⁸⁶ Some journalists who witnessed the Serbian withdrawal estimated that this was little more than a third of their forces. On the other hand, not a single NATO serviceman was killed by enemy action. Two US helicopter pilots died in a training accident, and three foolish GIs got themselves captured, but otherwise this was probably the safest army in history—safer, in fact, than some American high schools. By comparison, NATO claimed that the Yugoslav army lost 5,000 men and that a further 10,000 were wounded. Those figures were guesses, but even if they were treble the true body count, NATO was still ahead. Indeed, NATO won even if the official Serbian figure of 576 killed was correct. The main defect of the air campaign, however, was that it was extended to civilian targets. According to the Economist Intelligence Unit, the NATO bombardment may have killed as many as 1,500 civilians, mostly Serbs, not including a substantial number who were killed or maimed after the war was over by cluster bombs which had failed to explode on impact. We do not yet know for sure how many Kosovan Albanians were killed by the Serbs: one estimate by the International Crime Tribunal's forensic expert suggests a total of around 2,500. But however high the figure, the number of civilians killed by NATO was unjustifiably close to it.

What constrained the United States and her allies from using ground forces directly against the Serb army and special forces instead of bombing civilians? Patently, it was not the financial cost, which could easily have been afforded. What the war over Kosovo revealed—or, rather, what it confirmed—is that American power is not inhibited by the expense of military intervention, but by public aversion to the human cost.

British Foreign Secretaries before 1914 often claimed that their room for manoeuvre was circumscribed by “public opinion;” but in practice this usually meant little more than the post-prandial sentiments of the denizens of gentlemen's clubs. The wider public, in the modern sense of the adult population, had only limited influence; and was in any case as often agitated by jingoism as by pacifism. Even today—partly because of the thirty years of Irish terrorism, partly because of victory in the Falklands War—the British electorate is not averse to military action, even when casualties are sustained. The Russian populace has also shown itself willing to tolerate at least some military casualties in its war against Chechnya, provided Russian forces are seen to be winning. By contrast, and in large part due to the bitter memories

of Vietnam, many Americans today seem unwilling to expend *any* American lives in foreign wars, no matter how noble the cause. As President Clinton put it to his press spokesman George Stephanopoulos in 1993, at the height of the crisis in Somalia: "Right now the average American doesn't see our interest threatened to the point where we should sacrifice one American."⁸⁷ "We look after our own people," was his public response to the news that three GIs had been captured by the Serbs in Kosovo.⁸⁸ Few politicians during the war in Kosovo were as frank about what a ground war in the Balkans would have meant as the Vietnam veteran and Republican Senator John McCain; privately, however, most politicians shared his fears, picturing planeloads of bodybags and collapsing poll ratings. For a twenty-first-century democracy, it appears, any military casualties are unacceptable. High altitude bombing of Serb civilians was a strategy adopted to minimize the risks to American servicemen.⁸⁹

Partly for this reason, the American strategy in Kosovo was a bluff. It was not just the air campaign that persuaded the Serbs to pull out of the province. Nor was it only the Russians' decision to end their early diplomatic support for the Milošević government. A key factor was the steady build-up of NATO troops around Kosovo; for without the possibility of a ground invasion after the bombing it seems unlikely that the Serbs would have withdrawn; and without those forces there could certainly be no credible talk of a NATO protectorate after the Serbian withdrawal. Yet if Milošević had decided not to withdraw his forces, it is hard to believe that President Clinton would have authorized an invasion which would certainly have cost some American lives. Even as it was, public support for further bombing had slipped below 50 per cent by the last week of the operation.⁹⁰

Nor is it possible to describe the outcome of the Kosovo war as an unequivocal victory for NATO. Under the terms of the "military technical agreement" that ended the war, the Serbs improved on the Rambouillet proposals which had been the original *casus belli*. The UN Security Council was given ultimate control of the international force in Kosovo; the plan for a referendum in the province after three years was dropped; the Kosovo Liberation Army was excluded from the negotiations—unlike at Rambouillet—and was supposed to be disarmed.⁹¹ True, Milošević probably hoped for more from Russia's equivocal support. It may well be that, in agreeing to withdraw his forces, he was banking on the Russians gaining control of north-east Kosovo, allowing that to become a Serb enclave.⁹² Yet the fact remains that, a year and a half after the air strikes, the future status of Kosovo was still uncertain, despite Milošević's fall from power; while Saddam Hussein was still in power a

decade after the Gulf War. This suggests that the policy of “surgical” interventions with over-hasty “exit strategies” is directed at symptoms, rather than the diseases that cause them.

THE CASE FOR STRETCHING

The question has frequently been asked and deserves repetition: would it not be desirable for the United States to depose tyrants like Saddam and impose democratic government on their countries? The idea of invading a country, deposing its dictators and imposing free elections at gunpoint is generally dismissed as incompatible with American “values.” A common argument is that the United States could never engage in the kind of overt imperial rule practised by Britain in the nineteenth century. Yet it is often forgotten that this was precisely what was done in Germany and in Japan at the end of the Second World War, and with great and lasting success. The historian Charles Maier has argued persuasively that American policy after 1945 *was* a form of imperialism, not different in essence from the European imperialisms of the nineteenth century, based as it was on domestic political consensus, mastery of new communications technology and the export of a particular political economic model which he calls corporatism.⁹³ With commendable candour, Maier argues that

we [the US] relied on something “very like” an empire in the postwar period, that it provided an undergirding of “peace and prosperity,” and that we shall need some equivalent territorial ordering to emerge successfully from current turmoil. . . . Civil society and markets alone did not assure the stabilization of Western democratic societies after 1945. Nor did self-sufficient nation-states.⁹⁴

There is an obvious link between this argument about post-war stability and Charles Kindleberger’s thesis that the inter-war disaster was due in large part to the failure of the United States to pick up the hegemonic mantle relinquished by Britain.⁹⁵ In a similar vein, Robert Gilpin has maintained that Western economies only flourished after 1945 because they were underwritten by American military power. In Gilpin’s view, US hegemony in the West has been weakening since the end of the Cold War as rival power-blocs (such as the EU or the Asia-Pacific Economic Cooperation forum) have grown more self-confident.⁹⁶ Maier’s fear is simply that a *laissez-faire* approach to the post-Cold War world will not deliver enduring stability.

The evidence of American disengagement from the informal imperialism of the post-war world is hard to miss. Consider the fact that the United States spends just 0.1 per cent of GDP on overseas development aid; or the fact that the plans are well advanced to develop a National Missile Defence system, in breach of the 1972 Anti-Ballistic Missiles Treaty. These are the symptoms of a deep-rooted insularity which is the very reverse of what the world needs from its wealthiest power.

Far from retreating like some giant snail behind an electronic shell, the United States should be devoting a larger percentage of its vast resources to making the world safe for capitalism and democracy. This book has tried to show that, like free trade, these are not naturally occurring, but require strong institutional foundations of law and order. The proper role of an imperial America is to establish these institutions where they are lacking, if necessary—as in Germany and Japan in 1945—by military force. There is no economic argument against such a policy, since it would not be prohibitively costly. Even if the Kennedy thesis is right, imposing democracy on the world's rogue states would not push the US defence budget much above 5 per cent of GDP. There is also an economic argument for doing so, as establishing the rule of law in countries like Iraq would pay a long-run dividend as their trade revived and expanded.

The reasons this will not happen are threefold: an ideological embarrassment about being seen to wield imperial power; an exaggerated notion of what Russia and China would do in response; and a pusillanimous fear of military casualties.⁹⁷ Perhaps that is the greatest disappointment facing the world in the twenty-first century: that the leaders of the one state with the economic resources to make the world a better place lack the guts to do it.