

**The Rise and Fall of the Great Powers**  
**- *Economic change and Military conflict from 1500 to 2000***

By Paul Kennedy  
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This fascinating book by Paul Kennedy, a professor of history at Yale University, is about the changing balance of power in the past 500 years. The book explains the interaction between economics & strategy and relates military conflicts to economic progress. As the author puts it, "Wealth is usually needed to underpin military power and military power is usually needed to acquire and protect wealth." But if too much money is diverted towards military expenditures or if the state over extends itself by too many conquests, the results will not be satisfactory. There is a very significant correlation over the longer term between productive and revenue-raising capacities and military strength. Another point which the author emphasizes is that wealth and power are always relative. Also, a nation's relative economic and military power may not rise and fall in parallel. There is a noticeable lag between the trajectory of a state's relative economic strength and the trajectory of its military/territorial influence. According to the author, "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."

**The Rise of the Western World**

In 1500, few could have predicted the tremendous economic progress the western world would make. Compared with other great centres of cultural and economic activity, Europe's relative weaknesses were more apparent than its strengths. Europe had no significant advantages in culture, mathematics, engineering/navigational technologies, compared with other great Asian civilizations. Ming China, the Ottoman empire, the Moghuls, Russia and Japan all looked equally well placed compared to Europe. But Europe went ahead due to a combination of circumstances. There was political fragmentation. Different regions specialized in different products leading to a thriving trade. The decentralized, largely unsupervised growth of commerce and merchants and ports and markets allowed economic progress to take place unhindered. No systematic or universal plundering of merchants by a central authority could take place. In Europe, there were always some authorities willing to tolerate merchants and their ways even when others plundered and expelled them. Gradually, most of the regimes of Europe entered into a symbiotic relationship with the market economy, providing domestic order and a non-arbitrary legal system. In return, they received taxes. The development of long-range armed sailing ships heralded a fundamental advance in Europe's place in the world. These vessels enabled the west to control the important sea trade routes. There was also an upward spiral in knowledge in science and technology, based on observation and experimentation. Printing presses helped disseminate knowledge. As Kennedy puts it, "In most cases, what was involved was not so much positive elements, but rather the reduction in the number of hindrances which checked economic growth and political diversity. Europe's greatest advantage was that

it had fewer disadvantages than other civilizations... It was a combination of economic laissez faire, political and military pluralism and intellectual liberty, which had been in constant interaction to produce the European Miracle.” This mix of ingredients did not exist in Ming China or in the Muslim empires of the Middle East and Asia. As a result, these societies seemed to stand still while Europe advanced.

#### The key ideas in this book

- Wealth is the basis for military power.
- Too protect wealth, military power is necessary.
- There is a significant correlation between a country’s ability to generate resources and its military power.
- Wealth and power are always relative
- Powerful countries, in order to protect their states must strike the right balance between defence, consumption and investment.
- The US will decline in the coming years but it will continue to be the leading power of the world in the foreseeable future.

#### The Habsburg bid for Mastery, 1519-1659

During the period 1519-1659, a combination of kingdoms, provinces and duchies controlled by the Spanish and Austrian members of the Habsburg family threatened to become the predominant political authority in Europe.

The Reformation had added a new dimension to the traditional dynastic rivalries of the continent. The intensity and scale of warfare also increased because of the network of territories controlled by the Habsburgs, stretching from Gibraltar to Hungary and from Sicily to Amsterdam. Moreover, the Habsburgs expanded their territory through marriage and inheritance.

The first series of major wars was focused on Italy. There were also skirmishes in Germany. Over time, the Habsburgs found themselves in a weaker position compared to their rivals. In 1648, Spain made peace with the Dutch, finally recognizing their full independence. Then it became a Franco-Spanish war. The French finally teamed up with the British to deliver a crushing blow to the Spanish, leading to the Treaty of Pyrenees in 1659. Consequently, the political plurality of Europe remained intact.

The Habsburgs failed for many reasons. The scale and costs of wars had increased significantly. So, the Habsburgs were involved in an almost continual struggle for solvency. The Austrians and Spanish failed also because they had too many empires to fight and too many fronts to defend. They had to face too many foes simultaneously. The other states like France, England and Sweden enjoyed certain periods of peace and discovery. But the Hasburgs moved from one conflict to another. The Spanish

government also failed to mobilize available resources in the most efficient way. By acts of economic folly, it helped to erode its own power.

The Habsburg monarchs resorted to a wide variety of expedients easy in the short term, but disastrous for the long-term good of the country. At the centre of the Spanish decline was the failure to preserve the economic underpinnings of a powerful military machine. Taxes were steadily increased but rarely fell on those who could pay. Taxes also hurt commerce. The government, in its desperation to raise cash, also sold off various privileges, monopolies and honours. It used various forms of deficit financing. The Spanish expelled Jews, terminated contracts with foreign universities, concentrated on larger vessels at the exclusion of more useful, smaller, trading vessels and sold monopolies which restricted trade.

But the Habsburg failure was a relative one. It is not that the Habsburgs failed utterly to do what other powers achieved so brilliantly. All the participants in the wars fought by the Habsburgs were placed under severe strain due to the constant drain of resources for military and naval campaigns. The victory of the anti Habsburg forces was only a marginal and relative one. They may have managed their resources better and showed greater appreciation of the role of the manufacturer, trader and the farmer. But the margin of their better handling of economic elements was only slight.

### **Financial muscle and geopolitics (1660-1815): The decline of France and the rise of Britain**

After 1660, a genuinely multi polar system emerged in Europe. Each state increasingly tended to make decisions about war and peace on the basis of national interests rather than for transnational, religious causes. A system of short-term, shifting alliances emerged. Countries which had been foes in one war often found themselves partners in the next. A crude trilateral equilibrium emerged, consisting of France, Prussia and the Habsburgs. Britain and Russia were the other two leading powers. The most significant changes occurring in the military and naval fields were in organization. The enhanced authority and resources of the state gave to the armed forces a degree of performance which had often not existed, a century earlier. Not only were there professional standing armies and royal navies, there was also a much more developed infrastructure. War academies, barracks, ship-repair yards and the like, came up with administrators to run them.

As the military establishments became more sophisticated, the need arose for creating financial institutions which could raise and manage capital. The capacity to maintain credit worthiness and mobilise supplies became very important.

States could not fund wars with their normal revenues. There was the danger that steep rises in taxes would provoke domestic unrest. So, the only way a government could finance a war was by borrowing, selling bonds and selling offices. The two-way system of raising and simultaneously spending vast sums of money spurred the development of

western capitalism. The success of the system was critically dependent on two factors – reasonably efficient machinery for raising loans and the maintenance of the government’s credit rating. Amsterdam, which satisfied both conditions, became the leading financial centre of the world.

In Britain, an institutional framework evolved, which permitted the mobilization and servicing of long-term loans efficiently. The process was facilitated by the establishment of the Bank of England in 1694, a flourishing stock exchange and growth of the banking system. The obligations of the state were guaranteed by successive parliaments. Also, customs and excise revenues increased as trade & commerce expanded. Interest rates steadily dropped. British government stock became attractive to foreign investors in general and the Dutch in particular.

Compared to Britain, the French public finance system was relatively weak. The French monarchy’s financial operations had been managed from the middle ages by a cluster of bodies – municipal governments, the clergy, provincial estates and tax farmers. The organization was lax and inherently corrupt. Much of the taxpayer’s money ended up in private hands. During times of war, the financial system let the French down.

It is not however correct to say that financial clout alone determined the fate of nations. Amsterdam was the greatest financial centre in the world, but the United Provinces (erstwhile Netherlands) declined in importance. Russia was economically backward but it played an important role in European affairs. This trend can be attributed to geopolitics. Was a particular nation able to concentrate its energies upon one front? Did it share common borders with weak ones or powerful ones? Was it chiefly a land power, a sea power or a hybrid?

France, for example, suffered from being a hybrid power during the 18<sup>th</sup> century. Its attention and energies were divided between continental aims on the one hand and maritime and colonial ambitions on the other. France was unable to launch decisive campaigns because in each direction, she had to manage various interests simultaneously. Again, Britain was in a better position. Being an island, Britain could focus more on the sea. And the British continued to team up with other European powers to fight the French on the continent.

During the period 1660-1815, it was Great Britain which made the most decisive advances, finally dislodging France as the greatest of the powers. The British and the French governments decided to settle their differences in 1763 under the Treaty of Aix-la-Chapelle. Diplomatic talks arranged for a general return to status quo. But the agreement was more in the nature of a truce.

In the 1762-63 settlements, Great Britain emerged the clear winner. It had made advances in the West Indies and East Africa. It had virtually eliminated French influence from India. It was supreme in North America.

The French were determined to extract advantages from any problems which Britain might encounter overseas. When Britain's war with the American colonies started, it was in a much weaker position. In the 1776-83 conflict, Britain was engaged in land fighting, thousands of miles away from home and it had to fight unaided by other European powers who could distract the French. Britain's concessions at the 1783 Peace of Versailles was not a reversal of the great imperial gains of 1763. But the French were reasonably satisfied at the creation of an independent US and at the blow dealt to Britain's global leadership.

### **The rise and fall of Napoleon**

But France's position continued to deteriorate owing to the costs of wars and its failure to reform national finances. From 1787 onwards, France looked less and less capable of playing a decisive role in foreign affairs. The French did try to reform their army organization. And the Revolution of 1789 gave the reformers the opportunity to put their concepts into practice when war broke out. With an army of about 650,000 in July 1793, fired by enthusiasm and willing to take the risks involved in lengthy marches and aggressive tactics, the French were soon over running neighbouring territories. Though the French had organizational lacunae, the necessary political commitment and strategic thinking were also missing among its enemies who did not take the French threat seriously, early on.

But if the British could not defeat France, the French would not undermine the naval mastery of the British. British control of the sea routes could not by itself undermine French hegemony in Europe. And Napoleon's military mastery could not induce the islanders to surrender. Like the whale and the elephant, each was by far the largest entity in its respective region. Around 1801, the two sides were thinking of peace. But hostility increased when the British found themselves denied access to trade in much of Europe and French intrigues continued in various parts of the world. The final round of the Anglo French wars lasted for 12 years and was the most testing. The British won back several overseas possessions of the French. The Franco-Spanish fleets were thrashed soundly by the British in Trafalgar in October 1805. Meanwhile, Napoleon's position on land continued to be strong. Napoleon also imposed bans on British exports to Europe. These trading bans hurt England, but they were never applied long or consistently enough to take effect. Also, the British tapped other markets and total exports rose during the period 1794-96 to 1814-16. Moreover, the momentum of the British economy was maintained by the industrial revolution. So, the British were able to endure the costs of war better than the Napoleonic empire.

During the period 1789-1815, the competitiveness of French agriculture and industry declined. Indeed, to a large extent, Napoleonic imperialism was financed by plunder. Though Napoleon's system looked unbeatable, cracks soon began to appear. By entering Spain and Portugal, Napoleon committed a strategic blunder. A friendly Spain undid the earlier damage done to British trade. The French overstretch reflecting

Napoleon's own hubris, was by this time extreme. Any major setback affected other parts of the system since they had to be drained of troops in order to repair the broken front. The defeat at Leipzig in October 1813 was a major set back to the French. As fighting started on their own soil, the French public became less than enthusiastic. As France grew weaker, European powers seized the initiative to surround it with an array of strong buffer states.

Controlling most of Europe's colonies by 1815, dominating the maritime routes and the profitable re-export trades and well ahead of other societies in the process of industrialization, the British were now the richest nation in per capita terms. Over the next 50 years, Britain would emerge as the global economic superpower. Napoleon's refusal to compromise ensured not only his downfall but his greatest enemy's supreme victory.

### **Industrialisation and the shifting global balances, 1815-85**

In the 50 years following Napoleon's downfall, an integrated global economy began to take shape. The erosion of tariff barriers and widespread propagation of ideas about free trade and international harmony, resulted in a new order. There were conflicts but none except the American civil war became a major one. Technology developed during the industrial revolution, began to make its impact on military and naval warfare. The shifts in balance of power caused by the uneven pattern of industrial and technological change probably affected the outcome of mid 19<sup>th</sup> century wars, more than did finance and credit. Most of the wars were relatively short. The emphasis was on a speedy victory in the field using existing military strength rather than the long-term mobilization of national resources and the sharing of fresh revenues.

The industrial revolution in Britain increased productivity on a sustained basis. The expansion in national wealth and in the population's purchasing power easily outweighed the increase in population. Inanimate sources of power replaced animate sources, resulting in greatly increased productivity, especially in the textile industries. This stimulated a demand for more machines, more raw materials, more iron, more shipping, better communications and so on. The nation's per capita income went up and the demand of urban workers for food increased. But this could be easily met.

Countries such as China and India found their share of world manufacturing shrink. The penetration of their traditional markets by far cheaper and better products of the Lancashire textile factories seriously undermined their industrial competitiveness.

In 1800, Europeans occupied or controlled 35% of the world's land surface, in 1878, 67% and by 1914 over 84%. Steam engines and machine-made tools gave Europe decisive economic and military advantages. The UK became the unchallenged global superpower.

Between 1760 and 1830, the UK was responsible for around two thirds of Europe's industrial growth of output. Its share of world manufacturing production leaped from 1.9 to 9.5% in the next 30 years and in the next 30 years to 19.9%. Around 1860, when British might was at its peak, the UK produced 53% of the world's iron, 50% of its coal and lignite and consumed about half the world's raw cotton output. British shipping also dominated the world.

The ideology of the day preached peace, minimal government expenditures and reduction of state controls over the economy and the individual. So, the modernization which occurred in British industry and communications was not paralleled by improvements in the army. The economic dominance of the British was not quite reflected in their military power. But the British navy and British colonialism were more or less unchallenged. Between 1815 and 1880, the British empire existed in a vacuum. Which is why the colonial army could be kept relatively small.

Meanwhile, Britain's economic progress continued impressively. Britons became major foreign investors. The British economy acted as a vast bellows, sucking in enormous amounts of raw materials and foodstuffs and sending out vast quantities of textiles, iron goods and other manufactures. This was complemented by a network of shipping lines, insurance arrangements and banking links. The British began to play a pivotal role in international trade and international finance. Britain also contributed to the industrialization of other nations.

The path taken by the French was different. The French were not short of capital but they deliberately chose not to invest in large scale industrial enterprises. They concentrated on high quality rather than mass-produced goods. The relative military as well as economic power of the French continued to decline. France's army was inferior to that of Russia and its navy to that of the British. But the French were keen on playing an important role in Europe and were very active diplomatically.

Russia's relative power declined the most during the post 1815 decades. GNP did increase. But this was mainly due to an increase in population and not any increase in productivity. A general lack of capital, low consumer demand, a miniscule middle class, vast distances, extreme climates and the heavy hand of an autocratic, suspicious state made the prospects for industrial take off more difficult in Russia than in the rest of Europe.

Meanwhile, the development of America was taking place impressively. Steady industrial growth and ready availability of land resulted in labour shortages. Manufacturers began to invest in labour saving machinery, further boosting productivity. By 1800, wages in America were one third higher than in Western Europe. By 1861, the United States had become an economic giant. But its distance from Europe and lack of participation in international trade, disguised this fact. The Americans, till

the Civil War, spent relatively little on defence. But the Civil war transformed the US into the greatest military nation in the world.

The powers which were defeated during this period were those that failed to adjust to the military revolution of the mid 19<sup>th</sup> century – acquisition of new weapons, mobilizing and equipping of large armies, the use of improved communications offered by the railways, steamship, telegraph and a productive industrial base. The winning sides did commit blunders from time to time. But these blunders were more than made up by their trained manpower, supply, organization and economic base.

### **The coming of a Bipolar world (1885-1918)**

It is interesting to track the important economic and military developments in the major countries during this period.

*Italy:* As opposed to a cluster of rivaling small states, there was now a solid block of 30 million people in Italy. Within just a decade of reunifying, Italy had become one of the great European powers. But the country was economically very weak. When it came to literacy, agricultural productivity and per capita national wealth, Italy continued to be a laggard. Italy had only 25% of Great Britain's industrial strength in 1900. It had a share of less than 2.5% of the world's manufacturing output. The country's inadequate railway network made troops deployment difficult. Other problems which Italy faced were serious north-south imbalances and hostilities between the church and the State.

*Japan (1885-1918):* Japan's transformation began under the Meiji Restoration. A new constitution was established. The legal system was revamped. The educational system was expanded. A modern banking system evolved. The state encouraged the creation of a railway network, telegraphs and shipping lines. It supported industries like iron and steel, ship building and textiles. But there were some fundamental weaknesses. The country was heavily dependent on agriculture. Because of small holdings, agricultural productivity was not very high.

But Japan's isolation helped it to emerge as one of the great powers. Besides, morale was also high. According to Kennedy, "It seems indisputable that the strong Japanese sense of cultural uniqueness, the traditions of emperor worship and veneration of the state, the samurai ethos of military honour and valour, the emphasis upon discipline and fortitude, produced a political culture at once fiercely patriotic and unlikely to be deterred by sacrifices and reinforced the Japanese impulse to expand into 'Greater East Asia' for strategical security as well as markets and raw materials. ... The Samurai spirit, it seemed, could secure battlefield victories with the bayonet even in the age of mass industrialised warfare. If, as all the contemporary military experts concluded, morale and discipline were still vital pre-requisites of national power, Japan was rich in those resources." Indeed, the great powers could not attempt any thing in the Far East without considering Japan's response.

*Germany:* By 1914, Germany had become the most powerful state in Europe. The country's population soared from 49 million in 1890 to 66 million in 1913. Germany achieved high levels of education, social services and per capita income. The country built an impressive system of schools, polytechnics and universities. Industries such as coal, steel, electrical equipment, optics and chemicals all grew impressively. By 1913, Germany was one of the leading exporters in the world. It had a 14.8% share of global manufacturing output compared to Britain's 13.6% and France's 6.1%.

With the exception of Britain, Germany could afford to spend on armaments, more than any other European state. But Germany's weakness lay in its geography as well as diplomacy. Its very creation affected the interests of Austria-Hungary and France. As Germany lay in the centre of the continent, its growth appeared to threaten a number of other Great Powers simultaneously. Unlike Bismarck, many of the other German leaders did not display great diplomacy. Germany combined the modern, industrialized strength of Western democracies, with the autocratic decision making features of the eastern monarchies. So, it was a formidable power.

*France:* France's main enemy was Germany. But Italy's naval and colonial challenge was also disturbing. Anglo-French clashes weakened France's position. But the country did make significant economic progress. Till Henry Ford came, France was the leading automobile producer in the world. Railways, telegraphs, postal systems and inland waterways also showed tremendous improvements. The country's sizable foreign investments yielded significant political and diplomatic benefits though the economic benefits were far from clear. Also, the French economy was smaller than that of Germany. The country also did not have economies of scale in coal, steel and iron.

But the French were in a mood to do battle. A patriotic revival took place after 1911. France's national confidence was also boosted by the diplomatic efforts of foreign minister, Delcasse. Though France was not in a position to take on Germany one to one, it was wealthy, military strong and had powerful allies. So, French enthusiasm was high.

*Great Britain:* In 1900, Great Britain possessed the largest empire, the world had ever seen. But its relative industrial and commercial strength had declined. The US and Germany had overtaken Britain industrially. But Britain still remained the leading power in the world because of its financial resources, productive capacity, imperial possession and naval strength. However, Britain was now a mature state and was in favour of preserving the status quo.

*Russia:* Russia's sheer size and the strength of its standing army were impressive. But economically, it was not strong. Russian industrialization was essentially carried out by foreigners. Native entrepreneurship was virtually missing. Russia accumulated the largest foreign debt in the world. 80% of the population derived its livelihood from agriculture. A good proportion of the remainder was rooted in village ties. According to Kennedy, "What was happening was that a country of extreme economic backwardness

was being propelled into the modern age by political authorities obsessed by the need to acquire and retain the status of a European Great Power... The great thrust toward modernization was state-inspired and related to military needs.” But resources at Russia’s disposal were limited. According to a source quoted by Kennedy, by 1913, the average Russian had 50% or more of his income appropriated by the state for current defence than did the average Englishman, even though the average Russian’s income was only 27 percent of that of his British contemporary. The discipline introduced in factories and relatively low living standards created an ideal breeding ground for radicals. The government kept the tax burden on the rich to the minimum but increased the burden on the poor. Russia also did not have the competent civil servants which countries like Germany, Britain and Japan had.

*United States:* After the civil war, economic development in the US was breathtaking. The country combined its natural resources and technological advancements, to its advantage. The US had a vastly superior railway network, compared to Russia. US firms generated economies of scale as they enjoyed a huge domestic market. By 1914, US national income both in absolute and per capita terms was higher than that of anyone else. It was growing so fast that it was on the verge of overtaking the whole of Europe. The role of foreign trade in the growth of the US economy was initially small. Later, the transportation revolution and the growth of its industry boosted US exports. Between 1860 and 1914, the US increased its exports seven times. A vast trade surplus with Europe resulted in huge capital inflows from that continent.

Given its turn-of-the country rapprochement with Great Britain, the US was immensely secure. It did not have to worry about other major powers. As a result, the US could afford to spend less on armaments. Even more than Britain, the US continued to show a dislike of mass standing armies and avoided fixed military obligations to allies.

### **The growth of alliances and World War I**

In the 1890s, alliance blocs emerged. Germany, Austria-Hungary and Italy combined against France and Russia. The US remained on the sidelines on the eve of World War I. Austria-Hungary and Italy remained weak powers.

While Russia’s arms output did increase, its transportation system was inadequate. France needed British and American military assistance. During the first two or three years of war, it sustained many casualties. The British also came to depend on the US. The British Royal Navy was quite unprepared to counter the unrestricted U-boat warfare, which the Germans launched by early 1917. But Britain was an economic superpower, in spite of a major trade deficit with the US. It had a crucial role to play in financing the war efforts. Germany had intelligent, motivated personnel on the fronts, a large population and a strong industrial base. But popular morale suffered as the authoritarian regime exercised all sorts of controls over the German society and economy to meet the demands of war. Agriculture was also neglected.

The unrestricted U-boat campaign launched by the Germans and the revelations of secret German offers to Mexico of an alliance prompted the US to enter the war. Though the US army was not fully prepared for war, its sheer economic might and industrial strength swung the tide in favour of the allies. Finally, the Germans were outnumbered and outpowered by the combined economic muscle of the allied forces.

As Kennedy puts it, “The overall course of that conflict – the early stalemate between the two sides, the ineffectiveness of the Italian entry, the slow exhaustion of Russia, the decisiveness of the American intervention in keeping up the allied pressures and the eventual collapse of the central powers correlates closely with the economic and industrial production and effectively mobilized available forces to each alliance during the different phases of the struggle. To be sure, generals still had to direct their campaigns, troops still had to summon the individual moral courage to assault an enemy position and sailors still had to endure the rigours of sea warfare but the record indicates that such qualities and talents existed on both sides and were not enjoyed in disproportionate measure by one of the coalitions. What was enjoyed by one side, particularly after 1917 was a marked superiority in productive forces.”

### **The coming of a Bipolar World (1919-42)**

During this period, the most striking change in Europe was the emergence of a cluster of nation states – Poland, Czechoslovakia, Austria, Hungary, Yugoslavia, Finland, the Baltic states. The first world war had seen a lot of damage to life and property. After decades of growth, world manufacturing output had sharply declined. In many countries, public debt rose sharply as did inflation. Competitive depreciation of currencies led to financial instability and political rivalry. Between 1914 and 1919, the centre of global finance moved across the Atlantic. But the US was still more of a domestic economy, protectionist inclined, and not fully integrated into the global economy. The US was also saddled with excess capacity in some industries.

In the 1930s, the differential growth rates were more marked than they had been in the 1920s. The remarkably different ways in which national economic policy was pursued meant that output and wealth could be rising in one country while falling in another. The armed forces had become more dependent than ever on the productive capacity of their nations. The future of the armed forces was increasingly linked to modern technology and mass production.

### **Japan**

By 1938, Japan had not only become much stronger economically than Italy, it had also overtaken France in manufacturing and military production. Had its military leaders not entered into wars with China (1937) and in the Pacific (1941), Japan might have overtaken Britain’s output before it actually did so in the mid-1960s. Japan’s military capabilities were impressive but it was handicapped by erratic decision making by the government, clashes between various factions and lack of coordination between the army and the navy. The navy anticipated a war with the US or Britain while the army

was focused on the Asian content and the Soviet Union. The army had much more influence in Japanese politics. Japan found the Russians to be a formidable force. It also realized that economic security could be achieved only at the price of a war with the US.

### **Germany**

Germany found its position weak due to various factors – need to pay reparations, transfer of border regions to France and Poland, inflation, class tensions. It was only in 1927-28 that Germany's output equaled that achieved before the first world war. But the economic crisis ensured that Germany's industrial output in 1932 was only half that achieved in 1928. Hitler undertook various programmes of road building, electrification and industrial investments but by 1936, the heavy increase in military expenditure was proving to be a major drag on the economy. Germany was heavily dependent on imported raw materials but its exports were no longer adequate to pay for imports. Thus, Germany was not all that strong militarily in 1938-39.

### **France**

At the beginning of the 1930s, France possessed the second largest army after the Soviet Union and the second largest air force. It was very influential in diplomatic circles. The French economy recovered after World War I but after 1933, it began to collapse. The French avoided devaluation. So, foreign trade collapsed. Finally, the franc was devalued massively in October 1936. This accelerated the flow of gold out of France and affected its creditworthiness. With this swiftly weakening economy and with debt charges and the outlay for 1914-18 war pensions composing half the total public expenditure, it was impossible for France to reequip its armed forces satisfactorily. In 1937, Germany built over 5000 aircraft but France produced less than 1000 aircraft. Behind these economic and production difficulties, lay deep-seated social and political problems. The French society saw a sharp erosion of morale in the 1930s as class and ideological splits intensified following the devaluation of the franc.

### **Britain**

British manufacturing output shrank in the 1920s mainly due to an overvalued currency. The worldwide slump after 1929 worsened the situation. Britain's share of global commerce declined from 14.15% in 1913 to 10.75 in 1929 and 9.8 in 1937. By 1934, the economic recovery began, led by new industries like aircraft, automobiles, petrochemicals and electrical goods. But the general mood in the government was in favour of controlling state spending, keeping taxes low and maintaining a balanced budget. The Treasury was not at all in favour of raising government expenditure. Britain was now an overstretched global empire. It controlled 25% of the globe but had only 9-10% of its manufacturing strength.

### **Soviet Union**

In the Soviet Union, population declined from 171 million in 1914 to 132 million in 1921. Manufacturing output declined to 13% of its 1913 output by 1920. Attempts to set up a socialist command economy led to a catastrophic decline in agricultural production.

Under the Communists, private consumption shrunk sharply. So, the Russians could afford to spend 25% of their GNP on industrial investment and still invest in education, science and the armed services.

### **United States**

The US became the world's leading financial and creditor nation, to add to its strengths in agriculture and industry. It had the largest stocks of gold. Its people maintained a very high standard of living. In 1929, the US produced over 4.5 million motor vehicles compared to 211,000 in France, 182,000 in Britain and 117,000 in Germany. But protectionism increased, led by the Smoot-Hawley tariffs of 1930. The US was also badly hit by the Great Depression. Its GNP shrank from \$98.4 billion in 1929 to barely half that three years later. Nearly 15 million workers lost their jobs.

The US remained on the sidelines for a long time. The severity of the economic slump prompted American policy under Hoover and Roosevelt to be more introspective. But by 1937-38, Roosevelt was taking note of the grand designs of Germany and Japan. Secret Anglo-American naval talks began in 1938. Japan's actions and Hitler's gratuitous declaration of war upon the US brought the most powerful nation in the world into the war.

### **The second world war and beyond (1943-80)**

The Germans fared well in World War II for a long time. Their discipline, flexibility and decentralized decision making at a battlefield level were superior to the cautious tactics of the British, the full frontal assaults of the Russians and the enthusiastic but unprofessional forward rushes of the Americans. The Germans were also well trained.

But the economic and productive forces on the two sides were much more disproportionate than in World War I. The Allies possessed twice the manufacturing strength and three times the national income of the Axis powers. By 1942-43, their economic power had translated into military strength. In 1943-44, the US was producing one ship a day and one aircraft every five minutes. The devastation inflicted upon Hiroshima and the fall of Berlin into the hands of the Russians symbolized the end of World War II and marked the beginning of a new order in world affairs.

The US was the only great power which became richer because of World War II. American power in 1945 was artificially high like Britain in 1815. Even in absolute terms, the US was a mighty power accounting for two thirds of the world's gold reserves, half of the global manufacturing output and a third of the world's exports. Economic strength rapidly translated into military power. The US soon found itself playing a more active role in international affairs. The US belief was that unhampered trade fitted well with peace. It was committed to a new world order built on the principles of western capitalism. The Americans offered aid in return for currency convertibility and more open competition.

There was no doubt about the passing of the European age. While US GNP had surged by more than 50% in real terms during the war, Europe's as a whole had fallen by 25 percent. In 1950, Europe's per capita GNP was only about 50% of that of the US. The role of the US in global politics also increased significantly. As Russian involvement in international affairs increased, President Truman announced that the US would help free people to maintain their institutions and their integrity and protect them against the imposition of totalitarian regimes. The US realized the need for supplying economic aid to rebuild the economies of the war affected countries. Under the Marshall Plan, the US announced aid for all European countries, whether communist or not. The NATO alliance deepened the 1945 division of Europe into two camps. Gradually, the cold war spread from Europe to other parts of the world.

The rise of the superpowers was accompanied by political fragmentation of the globe. Leaders such as Tito, Nasser and Nehru championed the non-aligned movement. Like other great powers before them, Russia and the US had to accept that their universalistic message would not be automatically accepted by other societies and cultures. The split between the USSR and Communist China was clear evidence that it was not a bipolar world. Mao launched a vitriolic campaign against the USSR and demanded the return of vast geographical areas China had lost to Russia earlier. Similarly, in France, de Gaulle persisted with his campaign against the US, through this was not as serious as the Chinese campaign against the USSR. He continued to grumble about Europe's subservience to the US. But France was too weak to play the kind of influential role which de Gaulle envisaged.

The US looked more pragmatic than the USSR. After 1945, the Americans also took the position that it was in the long term interests of the US, that Europe should become strong and independent. This would also reduce its defence burden.

But the Vietnam war was a watershed event. It resulted in the breakdown of consensus in American society about the nation's goals and priorities. It also caused heavy inflation. Student protests, followed by Watergate seemed to create a crisis in American civilization and its constitutional arrangements. Henry Kissinger emphasized that absolute security was impossible. A reasonable balance of forces in world affairs was adequate. A concert of large powers, balancing each other off and with no one dominating another, would be a safer world than a bipolar one.

Between 1953 and 1975, global industrial output grew at a rate of 6%. By 1957, for the first time ever, world trade in manufactured goods exceeded that in primary produce. Europe recovered impressively. For too long, it had been preoccupied by war. A Europe whose economic potential could not be fully exploited due to war, now had a chance to correct these deficiencies. Europe was also determined to learn from its past follies.

The Italian economy grew impressively. Great Britain in 1945 had been a long way ahead within Europe. This explains at least partially its relative economic decline in the

following four decades. An economic miracle took place in Germany. Again this was not very surprising, considering that national energies could now focus on economic development. Germany's per capita disposable income grew impressively from \$1,186 in 1960 to \$10,837 in 1979 ahead of the US with \$9,595. Germany continued to generate export surpluses. But because it had been defeated and divided and its international status was regulated by treaty powers, this economic might did not translate into military might. Germany welcomed with gratitude the special relationship which France wanted to cultivate with her. The Germans projected themselves as good team players and not as decisive leaders in international affairs. The French economy also grew impressively but industrial development was not as broad based as in Germany. French firms were small and undercapitalized and could not embrace mass production like the Germans. But France attempted to play a bigger role in economic affairs than justified by its economic might. It wanted to assume the role of spokesman for Western Europe. The French were smart to realise that their country's modest real power could be greatly enhanced by persuading the common market to toe their line. (We have seen this happening in the way they wanted their candidate Jean Claude Trichet to become the president of the European Central Bank.)

The US had reached its peak by the end of World War II. So, its relative decline subsequently was not surprising. Its share of global manufacturing output declined from 50% in 1945 to 44.7% in 1953 and 31.5% in 1980. Not that the Americans were producing less but the other countries were producing more. By the early 1970s, with gold reserves shrinking and inflation rising, the Nixon administration had little choice but to float the dollar against other currencies, leading to a sharp depreciation. But the US could look back satisfactorily at having promoted a liberal international order and for having created an environment that was not too hostile to its open-market and capitalist traditions.

### **Concluding notes**

Large-scale armaments spending can benefit specific industries within the national economy. But more often than not, it leads to diversion of resources from other groups in society and weakens the economy. The challenge which super powers face is one of balancing the short term security afforded by large defence forces against the longer term security of rising production and income. Today, the great powers must meet their security needs but also satisfy socio economic needs along with growth to prevent relative decline. Due to differences in geography, politics and culture, one state's solution will never be exactly the same as that of another. But without a balance between the competing demands of defence, consumption and investment, a Great Power is unlikely to preserve its status for long. It has been a common dilemma facing number-one countries, that even as their relative economic strength is declining, the growing foreign challenges to their position compel them to divert more and more of their resources into military spending. This in turn squeezes out productive investment and leads to the downward spiral of slower growth, heavier taxes, deepening domestic

splits over spending priorities and a weakening capacity to bear the burden of heavy defence expenditure.

According to Kennedy, there will be shifts in shares of world output and military spending. But no new member is likely to enter the club consisting of the US, the USSR, China, Japan and the European community (Of course, the USSR has disintegrated since the book was published). The present major powers in the international system are thus compelled to grapple with the twin challenges which have confronted all their predecessors, uneven pattern of economic growth, and the dangers abroad which forces them to choose between a more immediate military security and a longer term economic security.

The US will continue to decline in relation to other powers. But it is in no danger of sliding to obscurity like Spain or the Netherlands. What will happen is the decline in America's share of the global economic output to a more natural 16-18% of the world's wealth and power from the supernormal. 40% or more in 1945. But the US will continue to be a significant power in a multipolar world simply because of its size. The task for US policy makers is to ensure that the relative decline takes place slowly and smoothly and is not complicated by actions which generate short term advantages but few long term advantages. The US needs to appreciate that technological and therefore socioeconomic change is occurring in the world faster than before. The international community is much more politically and culturally diverse than has been assumed. Whatever be the case, the US remains such a powerful nation that what it does or does not do is so much more important than what any of the other powers decides to do.

Kennedy does not come to any definitive conclusion about whether rising and falling powers in an anarchical world order will lead to war. It is quite possible that the piling up of powerful nuclear weapons will act as an effective deterrent. But it is equally possible that the great powers may continue to fight wars using conventional weapons.

The lessons from history captured in this book are fascinating. No modern government can afford to ignore them. And all B School students and professors will find this book very informative indeed.