CHAPTER 5

THE CASE FOR LIBERAL EMPIRE

> Imperialists don't realize what they can do, what they can create! They've robbed this continent [Africa] of billions, and all because they are too short-sighted to understand that their billions were pennies, compared to the possibilities! Possibilities that *must* include a better life for the people who inhabit this land.
>
> FRANKLIN D. ROOSEVELT, 1943[1]

> It would be ignorant, dangerous nonsense to talk about grants of full self-government to many of the dependent territories for some time to come. In those instances it would be like giving a child of ten a latch-key, a bank account, and a shot-gun.
>
> HERBERT MORRISON, 1943[2]

91

NO TO EMPIRE?

Nation-states are a novelty compared with empires, for there have been empires since the beginning of written records. Colonization—the establishment of new settlements by large and organized groups of migrants—is of course a process that predates recorded history. Civilization—the emergence of complex social structures with urban centers—can be traced back to the fourth millenninm before Christ. Empire, however, denotes something more sophisticated still: the extension of one's civilization, usually by military force, to rule over other peoples. It is one of history's truisms that empires rise and fall. One less commonly understood implication is that there are periods in history in which there is no dominant empire,

indeed sometimes no empire at all. In the 1990s the world faced this possibility. To put it starkly, the choice after the collapse of the Soviet Empire was between a world of independent nation-states, some but not all of them democracies, and an American *imperium*. Those opponents of the Bush administration whose slogan in 2003 was "No to Empire" took it for granted that the former was and remains a viable world order. Ironically, this was also the view of President Bush himself and indeed of most of his most senior advisers. As we have seen, though willing to use American military power to effect changes of government in rogue regimes and failed states, they had little appetite for "nation building," a euphemism for a new kind of "multilateral empire" in which the United States and United Nations together took over and ran countries in the aftermath of regime changes. In theory, this imperialism of internationalism could last indefinitely in countries palpably incapable of stable self-rule. But as far as Bush was concerned, the American presence in Bosnia, Kosovo, Afghanistan and Iraq was no more than a temporary expedient; this was not nation building in the Clintonian sense but merely an interim, provisional form of administration, paving the way back to self-government for the countries in question.

In short, both opponents and proponents of war to overthrow Saddam Hussein agreed that a swift return to full political sovereignty for Iraq was desirable; the same applied to the other countries under international administration. The question this chapter addresses is whether or not it is correct to regard national independence—what Woodrow Wilson called self-determination—as a universally viable model. Might it not be that for *some* countries some form of imperial governance, meaning a partial or complete suspension of their national sovereignty, might be better than full independence, not just for a few months or years but for decades?[3] Paradoxically, might the only hope for such countries ever to become successful sovereign states (especially if we regard democracy as a key criterion of success) be a period of political dependence and limited power for their representative institutions?[4] To answer that question, we need to compare the costs and benefits of both empire and independence in the modern period.

FROM EMPIRES TO NATION-STATES

The age of empires reached its zenith in the century stretching from the 1880s until the 1980s. For most of that period a relatively small number of empires governed nearly all of the world. On the eve of the First World War, Britain, France, Belgium, Holland and Germany, which among them accounted for less than 1 percent of the world's land surface and less than 8 percent of its population, ruled in the region of a third of the rest of the world's area and more than a quarter of its people.[5] All of Australasia, 90 percent of Africa and 56 percent of Asia were under some form of European rule, as were nearly all the islands of the Caribbean, the Indian Ocean and the Pacific. And although only around a quarter of the American continent—mainly Canada—found itself in the same condition of dependence, nearly all the rest had been ruled from Europe at one time or another in the seventeenth and eighteenth centuries. In both the north and the south, the polities of the American republics were fundamentally shaped by the colonial past.

Nor do these calculations about the extent of the West European maritime empires tell the whole story of nineteenth-century empire. Most of Central and Eastern Europe was under Russian, German or Austrian imperial rule. Indeed, the Russian empire stretched from the Baltic to the Black Sea and from Warsaw to Vladivostok. And still intact, though in a position of increasing inferiority to the European empires, were the Ottoman Empire in the Middle East and the Chinese empire in the Far East. Independent nation-states, in short, were the exception to a worldwide imperial rule. Even Japan, the best-known example of an Asian state that had resisted colonization (though its economy had been forcibly opened to trade by the United States), had itself already embarked on empire building, having conquered Korea. And as we have seen, the United States, though forged in the crucible of anti-imperial war, had taken its first steps on the road to empire, having annexed Texas in 1845, California in 1848, Alaska in 1867 and the Philippines, Puerto Rico, Hawaii and Guam in 1898. Indeed, its nineteenth-century history can be told as a transition from continental to hemispherical imperialism.

Yet the twentieth century rejected empire, in principle, if not in practice. The rejection may be said to have begun with the publication of one of the most influential of all anti-imperialist tracts, J. A. Hobson's *Imperialism: An Essay*, the central thrust of which—that the British Empire was a racket, run for the sole benefit of a tiny elite of financiers and their clients—later inspired Lenin's tract *Imperialism: The Highest Stage of Capitalism*. To Lenin, the First World War was a direct result of imperialist rivalries. Its consequences were, however, to overthrow no fewer than four Central and East European emperors (though Lenin himself ensured that the Romanov empire was reborn in a more malevolent form under Bolshevik rule). The five surviving West European empires limped through the 1920s and 1930s but were shattered in the 1940s by the German, Italian and Japanese bids to build new empires in Europe, Africa and Asia. The two superpowers that emerged victorious from the world wars, though empires in all but name, were both decidedly anti-imperial in their rhetoric. Elaborating on his predecessor Woodrow Wilson's first draft for a new world order, Franklin Roosevelt conceived of the Second World War as a war to end empire. The Soviet Union, for its part, consistently equated fascism and imperialism and did not take long after 1945 to accuse the United States of sponsoring one and practicing the other. Both these anti-imperial empires believed they would derive strategic advantages from decolonization.

Roosevelt envisaged a system of temporary[6] trusteeships for all former colonies, as a prelude to their independence on the basis of the Wilsonian principle of self-determination (which the peacemakers after the previous world war had emphatically ruled out for non-European peoples). Despite the best efforts of Churchill, he got his way.[7] Decolonization happened after the Second World War in a succession of great waves, postponed only where (as in the Middle East or Indochina) the Americans were willing to subsidize European colonial governments against Communist "insurgency."[8] The First World War had already dismantled three empires—the Habsburg, Hohenzollern and Ottoman—but many of their possessions had ended up in the hands of other empires, having enjoyed only the most fleeting tastes of independence. After 1945 it was different. Not only the British but also the French, Dutch, Belgian and Portuguese empires were wound up, rapidly in some regions of the world, slowly and painfully elsewhere, until by the 1970s little more than vestiges remained. Only three

empires endured: the Russian and Chinese (which Roosevelt conceived of as somehow different from the West European empires because their colonies were not overseas and, perhaps, because their ideologies were overtly egalitarian) and, of course, the unspoken American empire.[9] The result was a leap in the number of independent states in the world, which more than doubled. In 1920 there were 69 sovereign states in the world. By 1950 the number had risen to 89, and in 1995, by which time the Russian empire had finally fallen apart, there were 192, with the two biggest increases coming in the 1960s (mainly Africa, where no fewer than 25 new states were formed between 1960 and 1964) and the 1990s (mainly Eastern Europe).[10]

Thus, impelled forward by a combination of European exhaustion, non-European nationalism and American idealism, the world embarked on an epochal experiment, an experiment to test the hypothesis that it was imperialism that caused both poverty and wars and that self-determination would ultimately pave the way to prosperity and peace.

WHY DECOLONIZATION FAILED

That hypothesis has been largely proved false. The coming of political independence has brought prosperity only to a small minority of former colonies. And although the former imperial powers no longer fight one another, decolonization has in many cases been followed by recurrent conflict between newly independent states and, even more often, within them. This has been the great double disappointment of the sixty years since the end of World War II. Nor has the disappointment ended there. Self-determination was supposed to go hand in hand with democracy. But decolonization has often led not to democracy but, after the briefest of interludes, to indigenous dictatorship. Many of these dictatorships have been worse for the people living under them than the old colonial structures of government: more corrupt, more lawless, more violent. Indeed, it is precisely these characteristics that explain why standards of living have actually worsened in many sub-Saharan African countries since they gained their independence.[11]

Most of the former colonies of the Middle East are wealthier only because nature endowed some of them with underground deposits of oil, full

93

exploitation of which came only after they had gained their independence. But with few exceptions their polities are little better than despotisms. Colonialism was not all good, of course, and independence has not been all bad. But it is not convincing (though it is certainly convenient for the likes of the Zimbabwean despot Robert Mugabe) to blame all the problems of the developing world today on the malign after-effects of colonial rule. In the words of the African Development Bank's 2003 report, "More than four decades of independence . . . should have been enough time to sort out the colonial legacies and move forward."[12] The experience of much of Africa and the Middle East since 1945, as well as large parts of Asia, makes it clear that Roosevelt's faith in decolonization was misplaced.

Take poverty. Although historical statistics for *per capita* incomes are very far from complete or exact, it is possible to measure approximately how former empires and former colonies have fared in the period from high imperialism to post-imperialism. Long-run *per capita* gross domestic product figures are available for forty-eight countries, eight of which can be considered empires before the world wars and fourteen of which were colonies. Two things are immediately apparent from table 6, which compares both sets of countries in 1913 and in 1998. The first is that only one former colony has significantly improved its relative economic position: Singapore, which in 1913 had a *per capita* GDP of a quarter of that of the United States, but which by 1998 had overtaken all the former European imperial powers. The other ex-colony to improve its position, Malaysia, has done so only modestly, raising its *per capita* GDP from 17 percent to 26 percent of the American level. All the others have fallen farther behind the United States than they were in 1913, in some cases very far behind. The second point, which follows from the first, is that the gap between the world's former empires and most of their former colonies has widened sharply. In 1913 the Philippines, Egypt, India, Vietnam, Ghana and Burma all had *per capita* GDP of between 13 and 20 percent of the American level. In 1998 the average income in all six was less than a tenth of the average U.S. income. By comparison, all the former empires have remained within sight of the world's economic leader, with the exception of the United Kingdom, which is distinctly worse off in relative terms than it was in 1913.

Yet these figures understate the extent of the global divergence between rich and poor, because they omit many of the poorest countries in

TABLE 6. PER CAPITA GROSS DOMESTIC PRODUCT OF EMPIRES AND COLONIES DURING AND AFTER THE AGE OF EMPIRE (IN 1990 INTERNATIONAL DOLLARS)

	1913	USA=100	Rank	1998	USA=100	Rank	Change in Ranking
USA	*5,301*	*100*	*2*	*27,331*	*100*	*1*	*1*
Singapore	1,279	24	28	22,643	83	3	25
Canada	4,447	84	5	20,559	75	7	-2
Australia	5,715	108	1	20,390	75	8	-7
Netherlands	*4,049*	*76*	*8*	*20,224*	*74*	*9*	*-1*
France	*3,485*	*66*	*12*	*19,558*	*72*	*10*	*2*
Belgium	*4,220*	*80*	*7*	*19,442*	*71*	*11*	*-4*
United Kingdom	*4,921*	*93*	*4*	*18,714*	*68*	*14*	*-10*
Germany	*3,648*	*69*	*11*	*17,799*	*65*	*16*	*-5*
Italy	*2,564*	*48*	*17*	*17,759*	*65*	*17*	*0*
New Zealand	5,152	97	3	14,779	54	19	-16
Portugal	*1,244*	*23*	*29*	*12,929*	*47*	*21*	*8*
Malaysia	899	17	36	7,100	26	29	7
South Africa	1,602	30	24	3,858	14	37	-13
Sri Lanka	850	16	38	3,349	12	39	-1
Indonesia	904	17	35	3,070	11	41	-6
Philippines	1,066	20	32	2,268	8	43	-11
Egypt	732	14	45	2,128	8	44	1
India	673	13	47	1,746	6	45	2
Vietnam	754	14	42	1,677	6	46	-4
Ghana	739	14	44	1,244	5	47	-3
Burma	685	13	46	1,024	4	48	-2

Source: Angus Maddison, *The World Economy*. Rankings are based on the forty-eight countries for which Maddison provides data. The calculations are for real GDP *per capita*, measured in constant U.S. dollars of 1990, adjusted for purchasing power parity.

the world for which historical data simply do not exist. When one concentrates on the period between 1960 and 1989, a critical era for the postcolonial states of Africa, Asia and the Middle East, it is possible to discern more striking evidence of the economic failure of independence. Among forty-one former British colonies, only fourteen succeeded in narrowing the gap between their own *per capita* GDP and that of their erstwhile British rulers during those thirty years.[13] Indeed, in all but two former African colonies (Botswana and Lesotho), the ratio of British to former colonial income significantly increased.[14]

In one respect, this great postcolonial divergence may be slackening as

India, the most populous of all the former European colonies, enters a long-overdue era of economic growth. However, most ex-colonies continue to lag ever farther behind the elite of wealthy countries. According to the World Bank, there are only fourteen countries in the world with *per capita* GDP of three-quarters or more of the American level. Of these, all but two are European; the others (Japan and Hong Kong) represent the extremes of Asian experience, the former having never been a colony, the latter having remained under British rule for more than a century and a half. At the other end of the scale, however, there are twenty countries where *per capita* GDP is 3 percent or less of the American level. In more than thirty of the world's countries the average income is less than $1 a day.[15] All but six[16] of these are African countries that have gained independence since the Second World War. In the poorest of the former British colonies, Sierra Leone, *per capita* income is now $140 per year; the average Briton is more than two hundred times better off. In 1965 the difference in income was a factor of just eight. Gambia, the condition of which so appalled Roosevelt in 1943, has fared only slightly better. Incomes there are 0.8 percent of the British level, a far wider differential than at the time of independence in 1965. According to the World Bank, its GDP *per capita* has grown in real terms by just 14 percent since 1970, despite the fact that it has received aid totaling $1.6 billion since independence—equivalent, on average, to nearly 20 percent of its national income.

In short, the experiment with political independence, especially in Africa, has been a disaster for most poor countries. Life expectancy in Africa has been declining and now stands at just forty-seven years. This is despite aid, loans and programs of debt forgiveness. Only two sub-Saharan countries out of forty-six, Botswana and Mauritius, have bucked the trend of economic failure.[17]

Why have so many newly independent countries failed so badly to achieve economic growth? Why have only a tiny handful improved their relative position since the days of imperial rule? There are those who claim that the big divergence in *per capita* incomes between rich and poor countries since the 1960s has been a direct consequence of globalization. But this is a flawed argument. In theory, globalization, meaning simply the international integration of international markets for commodities, services

and capital and labor, should tend to maximize economic efficiency, yielding gains for all concerned. The real problem of the early twenty-first century is not globalization but its absence or inhibition. Indeed, the sad truth about globalization is that it is not truly global at all.

Part of the problem is that world trade is still far from being truly free. At least some of the blame for this can be laid at the door of the world's richest countries, which continue to pay subsidies to their farmers equivalent to the entire gross domestic product of Africa.[18] American producer support still amounts to around 20 percent of gross farm receipts; the figure for the European Union is more than 30 percent.[19] To give a single example, the subsidies paid to American cotton producers reduce the value of cotton exports from Benin, Mali, Chad and Burkina Faso by a quarter of a billion dollars a year, equivalent to nearly 3 percent of their combined national income.[20] But it is not just rich countries that are at fault. Many poor countries have hedged their economies around with a bewildering variety of restrictions that tend to hamper commerce. It has been convincingly shown that one of the principal reasons for widening international inequality in the 1970s and 1980s was in fact protectionism in less developed economies. A comparison of *per capita* GDP among developing countries found that the more "open" economies grew at an annual rate of 4.5 percent, while the "closed" countries managed barely 0.7 percent.[21] These findings have been widely interpreted as making the case for present-day globalization—that is to say, demonstrating that countries that reduce impediments to trade are much more likely to achieve rapid growth than those that incline toward autarky.

A similar point can be made with respect to flows of labor. It is now well established that international migration (or the restriction of it) plays a crucial role in determining the extent of international inequality. The more free movement there is of labor, the more international income levels tend to converge. One reason that modern globalization is associated with high levels of inequality is that there are so many restrictions on the free movement of labor from less developed to developed societies.[22] One recent estimate suggests that a liberalization of the global labor market would yield aggregate benefits twenty-five times larger than the expected benefits of further liberalization of flows of goods and capital.[23]

95

Above all, consider the evidence on international capital flows, another key component of globalization. Development economists have spent many decades trying to work out how to raise the level of investment in backward agrarian societies. The most obvious solution has been for them to import capital from where it is plentiful—namely, the developed world. According to the basic classical model of the world economy, this ought to happen of its own accord; capital should automatically flow from developed to less developed economies, where returns are likely to be higher. But as the Nobel laureate Robert Lucas pointed out in a seminal article published in 1990, this does not seem to happen in practice.[24] Although some measures of international financial integration indicate that the 1990s saw exceptionally large cross-border capital flows, in reality most of today's overseas investment goes on *within* the developed world. In 1994 only 36 percent of foreign direct investment and 10 percent of portfolio investment went to poor countries (defined as countries with incomes a third or less of the OECD average);[25] by 2000 the poor countries' share had fallen to around 12 percent and 2 percent, respectively.[26] The very poorest countries nowadays receive almost no investment from abroad.[27] Most cross-border capital flows are in fact *among* the United States, the European Union and Japan. Quite simply, investors in rich countries prefer to invest in other rich countries. The large gross capital flows of recent decades thus have little to do with widening international inequalities; the culprit is the absence of net capital flows from rich countries to poor.

According to one school of thought, geography, climate and the incidence of disease provide a sufficient explanation for the widening of global inequalities. Countries that are far from major sea routes, located in tropical zones where people are prey to diseases like malaria are more likely, if not simply doomed, to be poor.[28] However, there is good reason to believe that the key to economic success lies in the adoption of legal, financial and political institutions conducive to investment and innovation—regardless of location, mean temperature and the prevalence of disease-bearing insects.[29] Thus investors prefer to put their money in countries where rights of private property are effectively protected, though that should be regarded as a minimum requirement. In *The Wealth and Poverty of Nations,* David Landes summed up this view by postulating that "the ideal growth-and-development" government would:

1. secure rights of private property, the better to encourage saving and investment;
2. secure rights of personal liberty . . . against both the abuses of tyranny and . . . crime and corruption;
3. enforce rights of contract . . .
4. provide stable government . . . governed by publicly known rules . . .
5. provide responsive government . . .
6. provide honest government . . . [with] no rents to favor and position
7. provide moderate, efficient, ungreedy government . . . to hold taxes down [and] reduce the government's claim on the social surplus. . . .[30]

In a cross-country study of postwar economic growth, the economist Robert Barro concluded that there were six significant variables that correlated closely to a country's economic performance. Among them were the enforcement of the rule of law and the avoidance of excessive government expenditures and inflation.[31] It is widely accepted now that property rights are more likely to be respected in a country where the sovereign is constrained by a representative assembly.[32] And constitutional regimes based on the rule of law are in turn more likely to experience the financial revolutions that encourage both foreign investment and domestic capital formation. A representative legislature, a transparent fiscal system, an independent monetary authority and a regular market for securities create the institutional environment within which all kinds of corporations, particularly limited liability companies, can flourish.[33] Democracy in the sense of a universal suffrage-based legislature is not indispensable for growth; witness the recent economic success of China, Malaysia, Singapore, South Korea, Taiwan and Thailand. Democratization may even slow a country's economic development if an overhasty widening of the franchise unleashes popular demands for economically detrimental fiscal and monetary policies. On the other hand, democratic societies are more likely to invest in public education and public health, which also tend to enhance a society's economic performance.[34] Though authoritarian regimes in Asia have fared well economically, most in the rest of the world have not. Exceptions

96

such as post-1973 Chile may have had the rule of law in the economic sphere, but they certainly lacked it in the sphere of human rights; under Augosto Pinochet's dictatorship, property had more rights than people.

It is in this realm of economic, legal and political institutions that so many poor countries fall down. There have been numerous attempts in the past fifty years to address the problems of economic backwardness by means of loans and aid. Indeed, Western countries gave away around $1 trillion (in 1985 dollars) in unrequited transfers to poorer countries between 1950 and 1995. But these efforts have yielded pitiful results, in large measure because the recipient countries lacked the political, legal and financial institutions necessary for aid to be productive.[35] Arbitrary and corrupt rulers bear a large share of the responsibility for this economic failure.[36] Much of the money that has poured into poor countries has simply leaked back out—often to bank accounts in Switzerland—as corrupt rulers have stashed their ill-gotten gains abroad.[37] One study of thirty sub-Saharan African countries calculated that total capital flight for the period 1970 to 1996 was in the region of $187 billion, which, when accrued interest is added, implies that Africa's ruling elites had private overseas assets equivalent to 145 percent of the public debts their countries owed. The authors conclude that "roughly 80 cents on every dollar borrowed by African countries flowed back as capital flight in the same year."[38] There seems to be a close correlation between sub-Saharan economic failure and the generalized absence of the rule of law and political accountability; only five out of nearly fifty countries can be classified today as liberal democracies.[39]

Perhaps the best evidence for the institutional argument is that even a poorly situated country can prosper with the right institutions. Botswana has enjoyed the fastest rate of growth of *per capita* income in the world over the past thirty-five years, despite being little better endowed in terms of geography, climate and natural resources than other sub-Saharan African countries. According to a recent analysis, the main reason for Botswana's success is simply that it managed to adopt good institutions:

> The basic system of law and contract worked reasonably well. State and private predation have been quite limited. Despite the large revenues from diamonds, this has not induced domestic political instability or conflict for control of this resource. The government sustained the minimal public service structure that it inherited from the British and developed it into a meritocratic, relatively noncorrupt and efficient bureaucracy. . . . Moreover, the government invested heavily in infrastructure, education and health. Fiscal policy has been prudent in the extreme and the exchange rate has remained closely tied to fundamentals.[40]

In particular, Botswana has managed to develop functioning institutions of private property, "which protect the property rights of actual and potential investors, provide political stability, and ensure that the political elites are constrained by the political system and the participation of a broad cross-section of the society."[41]

Helpfully, controlled experiments were carried out in both Europe and Asia after 1945 to see how practically identical populations—in terms of environment, situation and culture—would fare economically under quite different institutional regimes. The widely divergent experiences of the two Germanies and the two Koreas confirm that institutions do indeed play the decisive role in development. So too did the experiment of keeping one Chinese city, Hong Kong, under Britain's liberal imperial system and one Chinese island, Taiwan, under a not dissimilar American-sponsored system, while the rest of the country endured the miseries of Mao's Marxist tyranny.

tb

Most poor countries stay poor because they lack the right institutions—not least the right institutions to encourage investment. Because they are not accountable to their subjects, autocratic regimes are more prone to corruption than those where the rule of law is well established. Corruption in turn inhibits economic development in a multitude of ways, diverting resources away from capital formation and the improvement of human capital through better health care and education. According to the African Union, the costs of corruption are equivalent to around one-quarter of African GDP.[42] Moreover, poor countries are more likely to succumb to civil war than rich ones, making them poorer still. In the absence of nonviolent means of bringing dictators to account, political violence is of course more likely to occur. Having begun, however, civil war can quickly become a way of life. A truly vicious circle now exists in many poor countries, as rival warlords

fight for the control of mineral deposits, narcotics plantations and even flows of foreign aid, recruiting cohort after cohort of poor, illiterate youths with little prospect of employment other than warfare and even less expectation of long life.[43] The problem is not confined to Africa; Colombia is in the grip of just such a downward spiral.

No doubt each of the "failed states" of the world has failed in its own distinctive way. But they also have much in common. Among the very poorest countries in the world are the Central African Republic, Uganda, Rwanda, Chad, Tajikistan, Niger, Eritrea, Guinea-Bissau, Libetia, Sierra

TABLE 7. POVERTY, UNFREEDOM AND CIVIL WAR

Country	GNI per Capita, Atlas Method (Current U.S.$)	UN HDI Value (U.S.=0.937)	Freedom House Political Rights (Best 1, Worst 7)	Freedom House Civil Liberties (Best 1, Worst 7)	Periods of War
Central African Republic	260	0.363	5	5	2001
Uganda	250	0.489	6	4	1971–72, 1977–79, 1981–91, 1994–95, 1996–2001
Rwanda	230	0.422	7	5	1990–94, 1998–2001
Chad	220	0.376	6	5	1965–88, 1989, 1990, 1991–94, 1997–2001
Tajikistan	180	0.677	6	5	1992–93, 1994–96, 1998
Niger	170	0.292	4	4	1990–92, 1994, 1996, 1997
Eritrea	160	0.446	7	6	1998–2000
Guinea-Bissau	150	0.373	4	5	1963–64, 1965–73, 1998, 1999
Liberia	150	NA	6	6	1980, 1989–96, 2000–01
Sierra Leone	140	0.275	4	4	1991–2000
Burundi	100	0.337	6	5	1965, 1990–92, 1995–96, 1997–2001
Ethiopia	100	0.359	5	5	1960, 1962–67, 1968–73, 1974–91, 1996–97, 1998–2001
Democratic Republic of Congo	90	0.363	6	6	1960–62, 1964–65, 1967, 1977, 1978, 1996, 1997, 1998–2000, 2001
Afghanistan	NA	NA	6	6	1978–2001
Somalia	NA	NA	6	7	1978, 1981–96

Source: World Bank, *World Development Indicators* database; United Nations Human Development Report, 2003; Freedom House; International Peace Research Institute, Oslo (PRIO); Department of Peace and Conflict Research, Uppsala University.

Leone, Butundi, Ethiopia, the Democratic Republic of Congo, Afghanistan and Somalia. Besides extreme poverty and (in nearly every case) average life expectancy of little more than forty years, all these countries fall far short of being liberal democracies, and all have experienced in the recent past, or continue to experience, some form of war.[44] In most cases, their only hope for the future would seem to be intervention by a foreign power capable of constructing the basic institutional foundations that are indispensable for economic development.

GLOBALIZATION

Think, then, of liberal empire as the political counterpart to economic globalization. If economic openness—free trade, free labor movement and

TABLE 8: GLOBALIZATION: AN OVERVIEW

Given (More or Less)	Flows	Mechanism	Agency	Policy	International Regime
Laws of physics: gravity, second law of thermodynamics etc.	Disease	Natural	None	Free migration	Anarchic
Climate	Goods	Transport technology	Corporations	Free trade	**Liberal**
Topography	Capital	Communications technology	Other nongovernmental organizations	Free capital flows	**Hegemonic**
Resource endowment	Labor		Governments	Free information flows	Imperial
Prevalence of organisms hostile to man	**Technology**		The rule of law		
Human biology	**Services**		**Fiscal transparency**	Monetary standards	
	Institutions				
	Knowledge				
	Crises				

free capital flows—helps growth, and if capital is more likely to be formed where the rule of law exists and government is not corrupt, then it is important to establish not only how economic activity becomes globalized but also how—by what mechanism—economically benign institutions can be spread around the world.

The fact that globalization applies to politics as well as economics is one of the messages of table 8. The first column lists what can be regarded as givens about the globe we inhabit; the second, those things that can flow around it; the third, the mechanisms that facilitate such flows; the fourth, the agencies operating these mechanisms; the fifth, the policies that allow those mechanisms to operate and the sixth, the possible international regimes.

Economists and economic historians alike tend to focus their attention on flows of commodities, capital and labor when talking about the history of globalization. However, there are other flows that can also occur on a global scale, not only flows of technology and services but also flows of institutions, knowledge and culture. A particular event like a revolution or a bank failure can also be transmitted by a kind of mimesis around the world.[45] And disease was globalized before any of these. The history of the fourteenth century would be incomprehensible without some knowledge of the bubonic plague, just as the conquest of the Americas by Europeans from the late fifteenth century until the mid-nineteenth would not have happened so easily without the export of infectious diseases, which more than decimated native populations. As well as infections, the conquistadors and colonists brought technology, institutions and ideas: gunpowder and the horse, Christianity and its various churches, West European notions of property, law and governance. Slow and erratic though it has been, the process of global democratization since the 1770s illustrates the way both institutions and ideas can be spread internationally as readily as goods can be traded across borders or money invested abroad. And the phenomenon of contagion, familiar to students of international financial markets, has its political counterpart in the international revolutionary epidemics after 1789, 1848, 1917 and 1989.

If one leaves aside the mechanisms of the natural world, which can only really transmit infectious diseases (and not very far without man-made assistance), all these different things have been able to traverse the world only because of advances in the technology of transport and communications. It was above all improvements in the design of oceangoing

ships, and increases in their number, that globalized the world economy in the nineteenth century, though the foundations of this revolution were laid earlier by advances in navigation, medicine and propulsion. Yet continued advances in the technology of transport and communications—the advent of aircraft, wireless transmission and satellites in space—were by themselves no guarantee of continued economic globalization. Much depended, and still depends, on the private and public agencies that control the means of communication. In the mid-twentieth century the encroachments of governments into economic life did much to reverse the economic integration of the pre-1914 period as more and more regimes adopted policies inimical to free international exchange.

Economic historians tend to pay more attention to the ways governments can facilitate globalization by various kinds of deregulation (the first four items in the fifth column of the table) than to the ways they can promote globalization more actively. Yet the history of the integration of international commodity markets in the seventeenth and eighteenth centuries is inseparable from the process of imperial competition among Portugal, Spain, Holland, France and Britain. The creation of global markets for spices, textiles, coffee, tea and sugar were the work of monopoly companies like the Dutch and English East Indian companies, simultaneously engaged in a commercial and a naval contest for market shares. In the same way, the spread of free trade and the internationalization of capital markets in the nineteenth century were intimately linked to the expansion of British imperial power. On the other hand, the eclipse of globalization in the middle of the twentieth century was in large measure a consequence of the immensely costly and destructive challenges to British hegemony mounted by Germany and its allies in 1914 and 1939. Nothing did more than the world wars to promote alternative models of economic organization to that of the international free market. War was actively waged against seaborne trade, while it was the various wartime experiments with the control of trade and foreign exchange, the centralized allocation of raw materials and the rationing of consumption that provided the inspiration for theories of peacetime economic planning in the Soviet Union and elsewhere. The globalization of warfare in the twentieth century must bear a large share of the responsibility for the midcentury breakdown of international trade, capital flows and migration.

It is certainly far from self-evident that an international order based on a multiplicity of notionally equal independent nation-states is the one best designed to maximize economic integration and to spread the institutions conducive to the success of free markets.[46] In an ideal world, of course, free trade would be naturally occurring. But history and political economy tell us that it is not. The period after the Second World War saw great strides to reduce the tariff barriers that had arisen in the beggar-my-neighbor mood of the Depression, but under the Bretton Woods system, international capital movements were tightly regulated and indeed stayed that way even after the system of fixed exchange rates had broken down, until the 1980s. Nor has the resistance to liberal economic policies wholly disappeared even in our own era of globalization; there still remain formidable barriers to the movement of workers and agricultural products. No matter how persuasive the arguments for economic openness, it seems, nation-states cling to their tariffs, quotas and subsidies. By contrast, in the first era of globalization, from the mid-nineteenth century until the First World War, economic openness was imposed by colonial powers not only on Asian and African colonies but also on South America and even Japan.[47] To be more precise, free trade spread because of Britain's power and Britain's example. It is to that first age of "Anglobalization" that we now turn, in order to assess both its costs and its benefits.

ANGLOBALIZATION

From the 1840s until the 1930s the British political elite and electorate remained wedded to the principle of laissez-faire, laissez-passer—and the practice of "cheap bread." That meant that certainly from the 1870s, Britain's tariffs were significantly lower than those of its European neighbors;[48] it also meant that tariffs in much of the British Empire were kept low. 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; witness the protectionist policies adopted by the United States and India after they secured independence, as well as the tariff regimes adopted by Britain's imperial rivals from the late 1870s onward. Whether one looks at the duties on primary products or those on manufactures, Britain was the least protectionist of the imperial powers. In 1913 average tariff rates on imported manufactures were 13 percent in Germany, over 20 percent in France, 44 percent in the United States and 84 percent in Russia. In Britain they were zero.[49]

According to one estimate, the economic benefit *to Britain* of enforcing free trade could have been anywhere between 1.8 and 6.5 percent of GNP.[50] But what about the benefit to the rest of the world? In the words of the Whig free trader Sir John Graham, Britain was "the great Emporium of the commerce of the World."[51] Its domestic market and much of its empire were more or less open to all comers to sell their wares as best they could. The evidence that, in an increasingly protectionist world, Britain's continued policy of free trade was beneficial to its colonies seems unequivocal. Between the 1870s and the 1920s the colonies' share of Britain's imports rose from a quarter to a third.[52] More generally, British colonial authorities resisted protectionist backlashes to the dramatic falls in factor prices caused by late-nineteenth-century globalization.[53] That said, a distinction needs to be made between the majority of colonies, which had free trade thrust upon them, and the elite few that secured, through the granting of "responsible government," the right to set their own tariffs. Canada did so in 1879, an example soon followed by Australia and New Zealand.[54] Moreover, there appears to have been a positive correlation between the imposition of these tariffs and the economic growth of what became the Dominions—an apparently awkward finding for the proponents of unconditional economic "openness."[55] This has important implications for any economic history of the British Empire. If Canada and the other Dominions benefited from protection, then the question becomes: would India have done better with tariffs? Happily for economic liberals, there is a difficulty with this line of argument. First, the tariffs imposed by Canada and others were designed to raise revenue, not to exclude imports. Canadian growth came from exports of agricultural products, not import substitution by domestic manufacturers.[56] Secondly, the argument ignores the far more damaging effects of unfree trade on primary producers during the 1930s. The Depression was hard on everyone, but significantly harder on primary producers outside the system of imperial preference than those inside it.

100

The evidence looks incontrovertible, then, that the British Empire fostered the integration of global markets for commodities and manufactures. Nor would there have been so much international mobility of labor without the British Empire. True, the independent United States was the most attractive destination for nineteenth-century emigrants. But as American restrictions on immigration increased, the significance of the white Dominions as a destination for British emigrants grew markedly, attracting around 59 percent of all British emigrants between 1900 and 1914, 75 percent between 1915 and 1949 and 82 percent between 1949 and 1963.[57] This had important distributional consequences. It is often argued that the lion's share of the returns on empire flowed to a tiny group of politically influential investors. But the effect of mass migration to land-rich, labor-poor colonies like Canada, Australia and New Zealand was to reduce global inequality.[58] Nor should we lose sight of the vast numbers of Asians who left India and China to work as indentured laborers, many of them on British plantations and mines in the course of the nineteenth century. Perhaps as many as 1.6 million Indians emigrated under this system, which lay somewhere between free and unfree labor.[59] There is no question that the majority of them suffered great hardship; some indeed might have been better off staying at home.[60] But once again we cannot pretend that this mobilization of cheap and probably underemployed Asians to harvest gum or dig gold had no economic significance.

Above all—and this is where Roosevelt and other critics of empire got it most wrong—the British Empire was an engine for the integration of international capital markets. Between 1865 and 1914 more than £4 billion flowed from Britain to the rest of the world, giving the country a historically unprecedented and since unequaled position as a global net creditor, "the world's banker" indeed, or, to be exact, the world's bond market. By 1914 total British assets overseas amounted to somewhere between £3.1 and £4.5 billion, as against British GDP of £2.5 billion.[61] This portfolio was authentically global: around 45 percent of British investment went to the United States and the colonies of white settlement, 20 percent to Latin America, 16 percent to Asia and 13 percent to Africa, compared with just 6 percent to the rest of Europe.[62] Out of all British capital raised through public issues of securities, as much went to Africa, Asia and Latin America between 1865 and 1914 as to the United Kingdom itself.[63] This pattern was scarcely changed by the effects of the First World War and the Great Depression.[64] As is well known, British investment in developing economies principally took the form of portfolio investment in infrastructure, especially railways and port facilities. But the British also sank considerable (and not easily calculable) sums directly into plantations to produce new cash crops like tea, cotton, indigo and rubber.

It has been argued that there was therefore something of a Lucas effect in the first era of globalization—in other words, that British capital tended to gravitate toward countries with higher *per capita* GDP, rather than relatively poor countries.[65] Yet the bias in favor of rich countries was much less pronounced than it is today. In 1997 only around 5 percent of the world's stock of capital was invested in countries with *per capita* incomes of a fifth or less of U.S. *per capita* GDP. In 1913 the proportion was 25 percent.[66] The share of developing countries in total international liabilities was 11 percent in 1995, compared with 33 percent in 1900 and 47 percent in 1938.[67] Very nearly half the total stock of international capital in 1914 was invested in countries with *per capita* incomes a third or less of Britain's,[68] and Britain accounted for nearly two-fifths of the total sum invested in those poor economies. The contrast between the past and the present is striking: whereas today's rich economies prefer to "swap" capital with one another, largely bypassing poor countries, a century ago the rich economies had very large, positive net balances with the less well-off countries of the world.

Investing money in faraway places is always risky; what economists call informational asymmetries are generally greater, the farther the lender is from the borrower.[69] Less developed economies also tend to be rather more susceptible to economic, social and political crises. Why, then, were pre-1914 investors willing to risk such high proportions of their savings by purchasing securities or other assets overseas? One possible answer is that the adoption of the gold standard by developing economies offered investors a kind of "good housekeeping seal of approval."[70] In 1868 only Britain and a number of its economic dependencies—Portugal, Egypt, Canada, Chile and Australia—had currencies that were convertible into gold on demand. France and the other members of the Latin Monetary Union, as well as Russia, Persia and some Latin American states were on the bimetallic (gold and silver) system, while most of the rest of the world

101

was on the silver standard. By 1908, however, only China, Persia and a handful of Central American countries were still on silver. The gold standard had become, in effect, the global monetary system, though in practice a number of Asian economies, notably India, had a gold exchange standard (with local currencies convertible into sterling rather than actual gold), while some "Latin" economies in Europe and America did not technically maintain convertibility of notes into gold.[71] This system of international fixed exchange rates may have encouraged international trade. Adherence to gold was also a signal of monetary and fiscal rectitude that allegedly facilitated access by peripheral countries to West European capital markets. It was a commitment mechanism, a way of affirming that a government would eschew irresponsible fiscal and monetary policies such as printing money or defaulting on debt.[72] A commitment to gold convertibility, according to one estimate, reduced the yield on a country's bonds by around forty basis points.[73] To put it simply, that meant that countries on the gold standard could borrow more cheaply when they went cap in hand to the London bond market.

As a *contingent* commitment, however, membership of the gold standard was nothing more than a promise of self-restraint under certain circumstances. Countries on gold retained the right to suspend convertibility in the event of an emergency, such as a war, a revolution or a sudden deterioration in the terms of trade. Such emergencies were in fact quite common before 1914. Argentina, Brazil and Chile all experienced serious financial and monetary crises between 1880 and 1914. By 1895 the currencies of all three had depreciated by around 60 percent against sterling. This had serious implications for their ability to service their external debt, which was denominated in hard currency (usually sterling) rather than domestic currency. Argentina defaulted in 1888–93, and Brazil in both 1898 and 1914. In other words, investors who pinned their faith in a country's adoption of the gold standard had no guarantee that the country would not default. (Indeed, some countries made the chances of a default more likely by going on to gold during the years of relative gold shortage between the mid-1870s and the mid-1890s, since falling commodity prices made it harder for them to earn from exports the hard currency they needed to service their external gold-denominated debts.)

Altogether different was the kind of commitment that came with the

imposition of direct British rule. This amounted to an unconditional "no default" guarantee; the only uncertainty investors had to face concerned the expected duration of British rule. Before 1914, despite the growth of nationalist movements in colonies from Ireland to India, political independence still seemed a distinctly remote prospect; even the major colonies of white settlement had been granted only a limited political autonomy. Moreover, the British imposed a distinctive set of institutions on their colonies that was very likely to enhance their appeal to investors: not only a gold-based currency but also economic openness (free trade as well as free capital movements) and balanced budgets—to say nothing of the rule of law (specifically, British-style property rights) and relatively noncorrupt administration.[74] In other words, while investors who put their money in independent gold standard countries got little more than a promise not to print money, investors who put their cash in colonies could count not just on sound money but on the full range of Victorian "public goods." It would therefore be rather puzzling if investors had regarded Australia as no more creditworthy than Argentina or Canada as no more creditworthy than Chile.

We can measure the "empire effect" on international capital flows in two ways: the volume of capital that went to British colonies and the interest rates those colonies paid. According to the best available estimates, more than two-fifths (42 percent) of the cumulative flows of portfolio investment from Britain to the rest of the world went to British possessions. The imperial proportion of stocks of overseas investment on the eve of the First World War was even higher: 46 percent.[75] It also seems clear that imperial possessions were able to borrow at lower rates of interest than independent countries (or the colonies of other powers). Britain and its principal possessions had among the lowest average bond yields for the period 1870 to 1914. By comparison, the yields on bonds issued by the Latin American economies, which also attracted substantial inflows of British capital without actually coming under British rule, were significantly higher. Argentine yields, to give just one example, were more than two hundred basis points higher than those on Indian bonds.[76] Among twenty-three countries for which bond yield figures are readily available for the period 1870 to 1914, it is very striking that the five states that were members of the British Empire had the lowest rates, all averaging less than 4 percent. Only Norway and Sweden were able to borrow in London at rates lower than New

201

Zealand and Australia. Egypt, which began the period outside the empire but became a *de facto* colony in 1882, saw a dramatic decline in its average yield from to 10.1 percent (1870–81) to 4.3 percent (1882–1914).[77] The differential was even more pronounced in the interwar period, which saw major defaults by numerous independent debtor countries, including Argentina, Brazil, Chile, Mexico, Japan, Russia and Turkey.[78] By the 1920s, at the latest, membership of the empire was therefore confirmed as a better "good housekeeping seal of approval" than gold.[79] Experience showed that money invested in a *de jure* British colony such as India, or in a colony in all but name like Egypt, was more secure than money invested in an independent country such as Argentina. In turn, the low-risk premium paid by British colonies when they raised capital in London made it less likely that they would fall into the kinds of debt traps that claimed other emerging markets, whose interest payments out to foreign creditors exceeded the amounts of money flowing in from new loans and being generated by the foreign-financed investments.

That imperial membership offered better security to investors than mere adoption of the gold standard should not surprise us. At the turn of the century legislation was introduced, in the form of the Colonial Loans Act (1899) and the Colonial Stock Act (1900), which gave colonial bonds the same trustee status as the benchmark British government perpetual bond, the "consol."[80] At a time when a rising proportion of the national debt was being held by Trustee Savings Banks, this was an important boost to the market for colonial securities.[81] Moreover, after the First World War, it was agreed between the Treasury and the Bank of England that new bond issues by British possessions should be given preference over new issues by independent foreign states.[82] Even colonial constitutions had been drafted with at least one eye on creditor preferences.[83] It was inconceivable, declared one colonial governor in 1933, that the interest due on Gold Coast bonds should be compulsorily reduced; why should British investors "accept yet another burden for the relief of persons in another country who have enjoyed all the benefits but will not accept their obligation"?[84] When the self-governing dominion of Newfoundland came to the brink of default in the early 1930s, a royal commission under Lord Amulree recommended that its Parliament be dissolved and its government entrusted to a six-man commission and royal governor appointed

from London. Amulree's report made it clear that he and his committee regarded the end of representative government as a lesser evil than default.[85]

Small wonder an increasing share of British overseas investment ended up going to the empire after the First World War. In the period from 1900 to 1914, around two-fifths (39 percent) of British overseas capital went to the empire. But after the First World War the balance shifted. In the 1920s the empire accounted for around two-thirds of all new issues on the London market.[86] Writing in 1924, John Maynard Keynes observed caustically that it was "remarkable that Southern Rhodesia—a place in the middle of Africa with a few thousand white inhabitants and less than a million black ones—can place an unguaranteed loan on terms not very different from our own [British] War Loan." It seemed equally "strange" to him that "there should be investors who prefer[red] . . . Nigeria stock (which has no British Government guarantee) [to] . . . London and North-Eastern Railway debentures."[87] Keynes's point was that this state of affairs was not in the economic interests of Britain itself. With unemployment stubbornly stuck above prewar levels and mounting evidence of industrial stagnation, capital export seemed like a misallocation of resources. But Keynes did not consider the benefits reaped by colonial economies from this kind of cheap access to British savings. From an imperial rather than a narrowly national point of view, it was highly desirable that savings from the wealthy metropolis be encouraged to flow to the developing periphery. Besides ensuring that British investors got their interest paid regularly and their principal paid back, the imperial system was conducive to *global* economic growth—more so, certainly, than an alternative policy of the sort Keynes had in mind, which would have prioritized the industrial production and employment of the United Kingdom.

103

IMPERIAL SINS OF OMISSION

The results of imperial globalization were in many ways astounding. The combination of free trade, mass migration and low-cost British capital propelled large parts of the empire to the forefront of world economic development. In terms of the production of manufactured goods per head of population, Canada, Australia and New Zealand ranked higher than Ger-

many in 1913. Indeed, *per capita* GDP grew more rapidly in Canada than in the United States in the ninety years before World War I.[88]

But there is a problem. The performance of the Dominions was not matched in the rest of the empire, and least of all in Asia, where the jewel in the imperial crown was supposedly situated. This raises a crucial question. Why was Indian economic performance so much worse than that of the dominions? India attracted £286 million of all the capital raised in London between 1865 and 1914—18 percent of the total placed in the empire, second only to Canada. Yet Indian *per capita* GDP grew at a miserably slow rate. Between 1857 and 1947—between the mutiny and independence, in other words—it rose by just 19 percent, compared with an increase in Britain of 134 percent.[89] Between 1820 and 1950 it grew at a mere 0.12 percent per annum—barely at all by the standards of the "white" empire and slow even by comparison with British Africa.

Here is one of the central conundrums of modern economic history. India, more than any other major economy, had free trade and Western commercial norms imposed upon it. Yet the result was deindustrialization and economic stagnation. The United States, by contrast, had thrown off British rule and adopted the kind of protectionist tariff rates—averaging 44 percent on imported manufactures—that we would now condemn in a developing economy. The result? By the end of the nineteenth century the United States had overtaken the United Kingdom by most measures of economic performance. If India's relative economic decline can be blamed on the British, the case against liberal empire begins to look dauntingly strong.

The nationalist explanation for Indian "underdevelopment" under British rule has four essential components. First, the British deindustrialized India by opening it to factory-produced textiles from Lancashire, whose manufacturers were initially protected from Indian competition until they had established a technological lead.[90] Secondly, they imposed excessive and regressive taxation. Thirdly, they "drained" capital from India, even manipulating the rupee-sterling exchange rate to their own advantage. Finally, they did next to nothing to alleviate the famines that these policies caused. One recent historian has gone so far as to speak of "Late Victorian Holocausts" in the 1870s and 1890s.[91] This negative view of the British role in India, which can be traced back as far as Naoroji Dadabhai's *Poverty and Un-British Rule in India* (1901), continues to enjoy wide currency.[92] It is perhaps the single most powerful piece of evidence in the case against liberal empire.

No doubt it benefited the Indian economy little to maintain one of the world's largest standing armies as, in effect, a mercenary force at Britain's disposal.[93] Yet recent research casts doubt on other aspects of the nationalist critique. The Indian historian Tirthankar Roy has shown that the destruction of jobs in the Indian textile industry was probably inevitable, regardless of who ruled India, and that an equal, if not greater, number of new jobs were created in new economic sectors built up by the British.[94] Even in the case of textiles, by the 1920s the government of India was clearly giving preference to Indian manufacturers over Lancashire's mills. It is also far from clear that taxation under the British was excessive, since the land tax burden fell from around 10 percent of net output in the 1850s to 5 percent by the 1930s.[95] The supposed "drain" of capital from India to Britain turns out to have been comparatively modest: only around 1 percent of Indian national income between the 1860s and the 1930s, according to one estimate of the export surplus (which was what nationalists usually had in mind).[96] In any case, a large proportion of the notorious Home Charges remitted to Britain were paying for services that India needed but could not have provided for itself.[97] Finally, the famines that beset the Indian economy were far more environmental than political in origin, and after 1900 the problem was in fact alleviated by the greater integration of the Indian market for foodstuffs. The Bengal famine of 1943 arose precisely because improvements introduced under British rule collapsed under the strain of the war.[98]

British rule had some distinctly positive effects in India. It greatly increased the importance of trade, from between 1 and 2 percent of national income to over 20 percent by 1913.[99] The British created an integrated Indian market: they unified weights, measures and the currency, abolished transit duties and introduced a "legal framework [that] promoted private property rights and contract law more explicitly." They invested substantially in repairing and enlarging the country's ancient irrigation system; between 1891 and 1938 the acreage under irrigation more than doubled.[100] They transformed the Indian system of communications, introducing a postal and telegraph system, deploying steamships on internal waterways

104

and building more than forty thousand miles of railway track (roughly five times the amount constructed in China in the same period). This railway network alone employed more than a million people by the last decade of British rule. Finally, there was a significant increase in financial intermediation.[101] As Roy concludes: "The railways, the ports, major irrigation systems, the telegraph, sanitation and medical care, the universities, the postal system, the courts of law, were assets India could not believably have acquired in such extent and quality had it not developed close political links with Britain. . . . British rule appears to have done far more than what its predecessor regimes and contemporary Indian regimes were able to do."[102] It is also possible (and the British no doubt believed) that their rule in India tended to reduce social inequality.[103] Certainly, by comparison with their counterparts in the other big Asian economy, which remained under Asian political control throughout the period, Indians fared quite well. Chinese *per capita* GDP actually shrank by around 17 percent between 1870 and 1950, roughly the amount by which Indian incomes rose. Though China's troubles were in large measure due to the disruptive effects of informal European imperialism and then Japanese colonization, it is at least arguable that the country would have fared better economically if formal British rule had been extended beyond the outposts of the so-called treaty ports like Hong Kong.

If one leaves aside their fundamentally different resource endowments, the explanation for India's underperformance compared with, say, Canada lies not in British exploitation but rather in the insufficient scale of British interference in the Indian economy. The British expanded Indian education—but not enough to make a real impact on the quality of human capital. The number of Indians in education may have risen sevenfold between 1881 and 1941, but the proportion of the population in primary and secondary education was far below European rates (2 percent in India in 1913, compared with 16 percent in Britain). The British invested in India—but not enough to pull most Indian farmers up off the base line of subsistence and certainly not enough to compensate for the pitifully low level of indigenous capital formation, worsened by the custom of hoarding gold.[104] The British built hospitals and banks—but not enough of them to make significant improvements in public health and credit networks.[105] These were sins of omission more than commission. Unfortunately for Indians, the nationalists who came to power in 1947 drew almost completely the wrong conclusions about what had gone wrong under British rule, embarking instead on a program of sub-Soviet state-led autarky, the achievement of which was to widen still further the gap between Indian and British incomes. This reached its widest historic extent in 1979.[106]

LESSONS OF LIBERAL EMPIRE

Economic historians will doubtless continue to debate the causes of the "great divergence" of economic fortunes that has characterized the last half millennium. If environmental factors provide a sufficient explanation for the widening of global inequalities, then the policies and institutions exported by British imperialism were of marginal importance; the agricultural, commercial and industrial technologies developed in Europe from 1700 onward were bound to work better in temperate regions with good access to sea routes. However, if—as seems more likely—the key to economic success lies in the adoption of the right legal, financial and political institutions, then it matters a great deal that by the end of the nineteenth century a quarter of the world was under British rule. Even in the tropics, the British endeavored to introduce the institutions that they regarded as essential to prosperity: free trade, free migration, infrastructural investment, balanced budgets, sound money, the rule of law and incorrupt administration. If the results were much less impressive in Africa and India than they were in the colonies of British settlement, that was because even the best institutions work less well in excessively hot, disease-ridden, or landlocked places. There the investments that were needed to overcome geography, climate and its attendant deleterious effects on human capital were beyond the imaginings of colonial rulers schooled in the Victorian fiscal tradition of balanced budgets with low taxes. Certainly, the very different policies adopted by postindependence governments have been more successful in only a tiny minority of cases.

105

In November 2002 the British foreign secretary, Jack Straw, told the *New Statesman* magazine: "I'm not a liberal imperialist. There's a lot wrong with

liberalism, with a capital L, although I am a liberal with a small L. And there's a lot wrong with imperialism. A lot of the problems we are having to deal with now are a consequence of our colonial past." Central to my argument is that there was such a thing as liberal imperialism and that on balance it was a good thing. From the 1850s until the 1930s the British approach to governing their sprawling global *imperium* was fundamentally liberal both in theory and in practice. Free trade, free capital movements and free migration were fostered. Colonial governments balanced their budgets, kept tariffs low and maintained stable currencies. The rule of law was institutionalized. Administration was relatively free of corruption, especially at the top. Power was granted to representative assemblies only gradually, once economic and social development had reached a level judged to be propitious. This policy "mix" encouraged British investors to put a substantial portion of their capital in poor countries and to demand relatively low-risk premiums in return. New technologies like railways and steam power were introduced to poor countries sooner and at a lower cost than if these countries had been politically independent. The results of liberal imperialism were mixed, no doubt. Not everywhere grew as rapidly as the colonies of white settlement. But even those countries (like India) that achieved only very slow increases in *per capita* income almost certainly fared better than they would have under alternative regimes.

Two conclusions follow from all this. The first is simply that in many cases of economic "backwardness," a liberal empire can do better than a nation-state. The second, however, is that even a very capable liberal empire may not succeed in conferring prosperity evenly on all the territories it administers. With that *caveat,* we may therefore make what might be called an altruistic argument for the United States to engage in something resembling liberal imperialism in our time. A country like—to take just one example—Liberia would benefit immeasurably from something like an American colonial administration.[107] Liberia is one of those countries listed in table 7 where nearly everything has gone wrong. Misgovernment and civil war have reduced it to the very bottom of the international rankings for human development. In 2003, as the country plunged still deeper into anarchy following the flight of its dictator Charles Taylor, the United States came under pressure to send troops to Monrovia to impose order there. From one point of view, of course, this was precisely the kind of

humanitarian intervention Republicans had previously criticized the Clinton administration for undertaking; what was manifestly needed here was nation building rather than mere regime change. Yet if there is one country in Africa for which the United States has a historic responsibility, it is Liberia, the only African country to have been colonized by Americans in the nineteenth century (so that former slaves could return "home" after their emancipation). If liberal empire is a serious possibility in the twenty-first century, where better for it to begin its work than in wretched Liberia, a place where political independence has been a curse, not a blessing, and self-determination has turned out in practice to mean self-destruction?

The fact that as I write, the American intervention in Liberia is already being wound up brings us to the next—and in many ways the paramount—question: Is the United States capable of the kind of long-term engagement without which the liberal imperial project, by whatever euphemistic name it goes, is bound to fail?

106

Article 2(4) of the UN Charter states that "all Members shall refrain . . . from the threat or use of force against the territorial integrity or political independence of any state," while Article 2(7) prohibits intervention "in matters which are essentially within the domestic jurisdiction of any state." In addition, the General Assembly's 1970 Declaration on Principles of International Law denies members "the right to intervene, directly or indirectly, for any reason whatever, in the internal affairs of any other state." Under the UN Charter, force may be used only in self-defense or with the explicit authorization of the Security Council in response to an act of aggression (Chapter VII, Articles 39 to 51). Only by ignoring the UN Charter (or, in the words of Tony Blair, "qualifying . . . the principle of non-interference . . . in important respects") could the military intervention by NATO on behalf of the Albanians of Kosovo be justified. See Caplan, "Humanitarian Intervention: Which Way Forward?" p. 25f.

39. On the "'no casualties' mindset" that characterized the war, see Boot, *Savage Wars*, pp. 325–27.
40. *New York Times*, August 15, 2003.
41. Ignatieff, *Empire Lite*, p. 70f.
42. Boot, *Savage Wars*, p. 327. The war's diplomatic low point came when the Chinese Embassy in Belgrade was unintentionally hit by a guided missile. Still more damage was done to the legitimacy of the NATO intervention by the use of cluster bombs on civilian targets in Serbia.
43. Ignatieff, *Virtual War*.
44. This was the conclusion of Ferguson, *Cash Nexus*.
45. Power, *"Problem from Hell."*
46. Shawcross, *Deliver Us from Evil*, p. 118f.
47. Ibid., pp. 106, 119, 207ff.
48. Ibid., p. 211.
49. Bacevich, *American Empire*, p. 202f.
50. *New York Times*, September 24, 2003.
51. Woodward, *Bush at War*, esp. pp. 30, 150.
52. Bush's words to a group of senators on September 13, 2001, quoted by Howard Fineman in *Newsweek*, September 24, 2001.
53. Clausewitz, *On War*, ch. 1, p. 87.
54. Around ten thousand Mahdists were killed to just forty-eight British soldiers. For an account of the battle, see Ferguson, *Empire*, pp. 267–70.
55. American forces had been operating in post-Soviet Central Asia since the mid-1990s, in Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan as well as in Pakistan. But it was still far from easy to mount even an air war from territories so recently added to the U.S. sphere of influence: Priest, *Mission*, pp. 38, 101f.
56. See the exceptionally well-informed account in Woodward, *Bush at War*.
57. Text from http://usinfo.state.gov/topical/pol/terror/secstrat.htm.
58. See, e.g., Galston, "Perils of Preemptive War."
59. Leffler, "9/11."
60. Shawcross, *Deliver Us from Evil*, p. 224f.
61. The list of transgressions was eloquently presented to the House of Commons by the prime minister, Tony Blair, on March 18, 2003.
62. Six in 1999, three in 2000, three in 2001 and five in 2002 alone.
63. Shawcross, *Deliver Us from Evil*, pp. 250, 320.
64. Stanley Hoffman, "America Goes Backward," *New York Review of Books*, June 12, 2003; James P. Rubin, "Stumbling into War," *Foreign Affairs*, September–October 2003; Madeleine K. Albright, "Bridges, Bombs or Bluster," ibid.

65. Pollack, *Threatening Storm*.
66. "The Divided West," *Financial Times* supplement, June 2003, p. 5.
67. Text at http://ods-dds-ny.un.org/doc/UNDOC/GEN/N02/682/26/PDF/N0268226.pdf?OpenElement.
68. It would be interesting to see how credible this document looks today.
69. See the inferences drawn by Mark Danner, "Iraq: The New War," *New York Review of Books*, September 25, 2003, p. 90.
70. "The Divided West," *Financial Times* supplement, June 2003, p. 5.
71. "It is not well brought-up behavior," snapped Chirac. "They missed a good opportunity to keep quiet." For good measure, he added: "If they wanted to diminish their chances of joining Europe, they could not have found a better way."
72. Hoffman, "America Goes Backward," p. 74. Hoffman argues that the United States is pursuing "a policy of hubris in which international domination is presented under the mask of universal benign ideals." If anyone was wearing that mask in March 2003, it was surely Jacques Chirac.
73. Mark Husband and Stephen Fidler, "No Smoking Gun," *Financial Times*, June 4, 2003.
74. *Financial Times*, June 4, 2003.
75. Testimony of John Scarlett before the Hutton Inquiry into the death of Michael Kelly, August 28, 2003: http://www.the-hutton-inquiry.org.uk/.
76. Hansard, March 18, 2003: http://www.parliament.the-stationery-office.co.uk/pa/cm200203/cmhansrd/cm030318/debtext/30318-06.htm and -08.htm.
77. Woodward, *Bush at War*, p. 106.
78. Rodric Braithwaite, "End of the Affair," *Prospect*, May 2003, pp. 20–23.
79. Gilbert, *Never Despair*, p. 1271.
80. Ibid.
81. Dimbleby and Reynolds, *Ocean Apart*, p. 255.
82. Ibid., p. 252.
83. Ibid., p. 288.
84. Ibid., p. 264.
85. Pew Global Attitudes Project, "Views of a Changing World," June 2003.
86. Richard Burkholder, "Ousting Saddam Hussein 'Was Worth Hardships,'" Gallup Web site: http://www.gallup.com/poll/tb/goverpubli/20030923c.asp.
87. Ibid.
88. Woodward, *Bush at War*, p. 220.
89. Ibid., pp. 231, 237.
90. Ignatieff, *Empire Lite*, p. 2.
91. Etzioni, "Implications of American Anti-Terrorism Coalition," p. 26.
92. Stewart Stogel, "Food Fight," *Time*, May 3, 2003.

CHAPTER 5: THE CASE FOR LIBERAL EMPIRE

1. Louis, *Imperialism at Bay*, p. 227.
2. Ibid., p. 14.
3. On the limits of sovereignty and the various models of partial sovereignty, including empire, see Krasner, "Troubled Societies."
4. Diamond, "Universal Democracy."
5. Townsend, *European Colonial Expansion*, p. 19.
6. Despite his repeated demands for a "timetable" for decolonization, the time frame Roosevelt had in mind was always kept vague. He spoke of some South Asian colonies as being "ready for self-government in 20 years," but Borneo he expected would need a century of trusteeship: ibid., pp. 157, 437.
7. Louis, *Imperialism at Bay*, p. 175. See Jeffery, "Second World War," p. 314.
8. Louis and Robinson, "Imperialism of Decolonization."

107

9. The British never tired of pointing out these inconsistencies. They lost no opportunity to remind the Americans of their *de facto* imperial position in Hawaii, Puerto Rico and the Virgin Islands. It turned out, conveniently enough, that these lay "outside the scope of the trusteeship program": Louis, *Imperialism at Bay*, p. 236. Later they referred to the preferential treatment accorded by Roosevelt to the Russian empire as the "salt water fallacy": ibid., p. 570.
10. Alesina et al., "Economic Integration and Political Disintegration," pp. 1, 23.
11. Diamond, "Promoting Real Reform in Africa."
12. Ibid., p. 11.
13. They were Lesotho, Pakistan, Egypt, Botswana, Malaysia, Malta, Barbados, Cyprus, Israel, Ireland, Singapore, Hong Kong, Canada and, of course, the United States.
14. Calculated from World Bank, *World Development Indicators* database. *Per capita* GDP is adjusted for purchasing power parity in current international dollars.
15. Ibid. Income refers to gross national income *per capita*, Atlas method (current U.S. dollars), 2002.
16. The exceptions are Bangladesh, Nepal, Laos, Cambodia, Kyrgyzia and Tajikistan: two former British colonies, two former French colonies and two former Russian colonies.
17. Diamond, "Promoting Real Reform in Africa."
18. James Wolfensohn, "A Good 'Pro-Poor' Cancún Could Help Rich as Well," *Financial Times*, September 8, 2003.
19. Tobias Buck, Guy de Jonquières and Frances Williams, "Fischler's New Era for Europe's Farmers," *Financial Times*, June 27, 2003. Cf. Runge, "Agrivation."
20. Diamond, "Promoting Real Reform in Africa," p. 31; national income data from the World Bank.
21. Sachs and Warner, "Economic Reform," esp. p. 36. See also their "Fundamental Sources of Long-run Growth," pp. 184–88.
22. Chiswick and Hatton, "International Migration."
23. Rodrik, "Feasible Globalizations," p. 19.
24. Lucas, "Why Doesn't Capital Flow from Rich to Poor Countries?"
25. Baldwin and Martin, "Two Waves of Globalization," p. 20.
26. Schularick, "Development Finance," p. 20f, chart 2.
27. Easterly, *Elusive Quest*, p. 58f.
28. See, e.g., Sachs, "Tropical Underdevelopment."
29. See Acemoglu et al., "Colonial Origins" and the same authors' "Reversal of Fortune."
30. Landes, *Wealth and Poverty of Nations*, p. 217f.
31. Barro, "Determinants of Economic Growth." The three others were the provision of secondary and higher education, the provision of health care and the promotion of birth control.
32. North and Weingast, "Constitutions and Commitment."
33. Ferguson, *Cash Nexus*. See also Sylla, "Shaping the U.S. Financial System."
34. Lindert, "Voice and Growth."
35. "Zambia received $2 billion of aid in 1985 dollars since 1960. If all the aid had gone into investment, and investment had gone into growth, its *per capita* income would now be $20,000. In fact it is $600": Easterly, *Elusive Quest*, p. 42.

36. "Governments so often cause low growth [by creating] poor incentives for growth: high inflation, high black market premiums, high budget deficits, strongly negative real interest rates, restrictions on free trade, excessive red tape, and inadequate public services": ibid., p. 239.
37. According to one estimate, the private international assets of poor countries' residents may amount to two trillion dollars, the equivalent of almost 40 percent of poor countries' combined GDP in 2000: Schularick, "Development Finance," p. 32.
38. James K. Boyce and Léonce Ndikumana, "Africa's Odious Debts," Project Syndicate, June 2003.
39. Diamond, "Promoting Real Reform in Africa," p. 6. The number of African countries holding democratic elections has risen slightly since the nadir of the 1980s and now stands at nineteen, but only a quarter of these offer their citizens meaningful civil and political freedom. The distinction between liberal and illiberal democracy is explored at length in Zakaria, *Future of Freedom*. For an illuminating critique, see Diamond's review in *Journal of Democracy*, 14, 4 (2003), pp. 167–71.
40. Acemoglu et al., "African Success Story," p. 2f.
41. Ibid., p. 4. Acemoglu et al. give no credit whatever to the legacy of British colonial rule. Another interpretation might be that, compared with (for example) Zimbabwe, the rulers of Botswana have done relatively little to dismantle the British system of non-corrupt administration.
42. Diamond, "Promoting Real Reform in Africa," p. 9.
43. Collier and Hoeffler, "Economic Causes of Civil War." Cf. Collier, "The Market for Civil War," *Foreign Policy*, May–June 2003, pp. 38–45; "The Global Menace of Local Strife," *Economist*, May 24, 2003.
44. Gleditsch et al., "Armed Conflict."
45. For a useful introduction to the noneconomic facets of globalization, see Held et al., *Global Transformations*.
46. Though it should be emphasized that there are limits to how far a complete standardization of economic institutions could be—or for that matter needs to be—taken: Rodrik, "Feasible Globalizations." As Rodrik argues, there is more than one path to prosperity; witness the diversity of institutional arrangements in the world's largest economies. However, that is not an argument against trying to establish one or other of the successful institutional frameworks in countries that have failed to grow their own. It is not that every country needs to choose among the nation-state, democracy and global economic integration; it is just that some nation-states—usually undemocratic ones—need to have globalization forced upon them.
47. Ibid., pp. 6–10. For the evidence that the late nineteenth century was indeed the "first age of globalization," see O'Rourke and Williamson, "When Did Globalization Begin?" See also their *Globalization and History*.
48. By one measure (net customs revenue as a percentage of net import values) France was in fact more liberal from the 1820s until the mid-1870s: John Vincent Nye, "Myth of Free-Trade Britain." The real significance of British free trade is that the British retained it even after globalization began to drive down commodity prices in the 1870s.

801

49. Bairoch, "European Trade Policy" p. 139.
50. Edelstein, "Imperialism: Cost and Benefit," p. 205.
51. Cain and Hopkins, *British Imperialism,* p. 141.
52. Ibid., p. 432.
53. Williamson, "Land, Labor and Globalization."
54. See Cain and Hopkins, *British Imperialism,* esp. p. 212.
55. Clemens and Williamson, "A Tariff-Growth Paradox?"
56. Irwin, "Tariff-Growth Correlation of the Late Nineteenth Century."
57. Constantine, "Migrants and Settlers," p. 167.
58. Williamson, "Winners and Losers"; idem, "Land, Labor and Globalization."
59. Engerman, "Servants to Slaves," p. 272.
60. Tinker, *New System of Slavery.*
61. Cain and Hopkins, *British Imperialism,* pp. 161–63.
62. Maddison, *World Economy,* table 2-26a.
63. Davis and Huttenback, *Mammon,* p. 46.
64. Maddison, *World Economy,* table 2-26b.
65. According to Clemens and Williamson, "about two-thirds of [British capital exports] went to the labor-scarce New World where only a tenth of the world's population lived, and only about a quarter of it went to labor-abundant Asia and Africa where almost two-thirds of the world's population lived": Clemens and Williamson, "Where Did British Foreign Capital Go?"
66. Obstfeld and Taylor, "Globalization and Capital Markets," p. 60, figure 10.
67. Ibid., table 2.
68. Schularick, "Development Finance," p. 14 and table 4.
69. Drazen, "Political-Economic Theory of Domestic Debt."
70. The definitive statement is Bordo and Rockoff, "Gold Standard as a 'Good Housekeeping Seal of Approval.'"
71. Eichengreen and Flandreau, "Geography of the Gold Standard," table 2.
72. Bordo and Kydland, "Gold Standard as a Commitment Mechanism," p. 56; Bordo and Schwartz, "Monetary Policy Regimes," p. 10.
73. Bordo and Rockoff, "'Good Housekeeping,'" pp. 327, 347f.
74. Ferguson, *Empire,* esp. ch. 4. A modern survey of forty-nine countries concluded that common-law countries offered "the strongest legal protections of investors." The fact that eighteen of the countries in the sample have the common law system is of course almost entirely due to their having been at one time or another under British rule: La Porta et al., "Law and Finance."
75. Schularick, "Development Finance," table 5.
76. For more details, see Ferguson, "City of London."
77. I am grateful to Alan M. Taylor for making these data available to me.
78. Lindert and Morton, "How Sovereign Debt Has Worked."
79. As demonstrated by Obstfeld and Taylor, "Sovereign Risk." For a contrary argument, see Bordo and Rockoff, "Adherence to the Gold Standard."
80. Cain and Hopkins, *British Imperialism,* pp. 439, 570. See for a detailed discussion, J. M. Keynes, "Foreign Investment and National Advantage," in Moggridge (ed.), *Collected Writings,* vol. 19, part I, pp. 275–84.
81. MacDonald, *Free Nation Deep in Debt,* p. 380.
82. Atkin, "Official Regulation," pp. 324–35.

83. Writing in the 1950s, the Canadian historian Harold Innis declared: "The constitution of Canada, as it appears on the statute book of the British Parliament, has been designed to secure capital for the improvement of navigation and transport": Cain and Hopkins, *British Imperialism,* p. 233.
84. Ibid., p. 584f.
85. Hale, "British Empire in Default."
86. Cain and Hopkins, *British Imperialism,* p. 439.
87. J. M. Keynes, "Advice to Trustee Investors," in Moggridge (ed.), *Collected Writings,* vol. 19, part I, p. 204f.
88. Maddison, *World Economy,* p. 264, table B-21.
89. Calculated from figures ibid., p. 112.
90. Dutt, "Origins of Uneven Development."
91. Davis, *Late Victorian Holocausts.*
92. See, e.g., Raychaudhuri, "British Rule in India," pp. 361–64.
93. See Washbrook, "South Asia, the World System, and World Capitalism," p. 480f.
94. Roy, *Economic History of India,* p. 42ff.
95. Ibid., p. 250.
96. Maddison, *World Economy,* table 2-21b. The "drain" of resources from Indonesia to Holland was substantially larger and more deserving of that appellation. It is nevertheless undeniable that Indian monetary policy was governed with managing this transfer of resources, not with maximizing Indian output, as its principal objective.
97. Roy, *Economic History,* p. 241.
98. Ibid., pp. 22, 219f., 254, 285, 294. Cf. McAlpin, *Subject to Famine.*
99. Roy, *Economic History,* pp. 32–36, 215.
100. Ibid., pp. 258–63.
101. Ibid., p. 46f.
102. Ibid., p. 257.
103. Maddison, *World Economy,* p. 110f.
104. Roy, *Economic History,* p. 226–29.
105. See Goldsmith, *Financial Development of India.*
106. Thanks to the liberalization of the 1990s, India has since managed to narrow that gap.
107. Stephen Haber, Douglass C. North and Barry R. Weingast, "If Economists Are So Smart, Why Is Africa So Poor?" *Wall Street Journal,* July 30, 2003.

CHAPTER 6: GOING HOME OR ORGANIZING HYPOCRISY

1. Fromkin, *Peace to End All Peace,* pp. 449–54.
2. Ibid., p. 509.
3. Yergin, *Prize,* pp. 186–90, 195–97, 201, 204.
4. Fromkin, *Peace to End All Peace,* p. 509.
5. *Newsday,* April 9, 2003.
6. *New York Times,* April 11, 2003.
7. "Transcript of President Bush's Remarks on the End of Major Combat in Iraq," *New York Times,* p. A16.
8. *New York Times,* February 27, 2003.
9. *Financial Times,* April 7, 2003
10. *New York Times,* July 15. 2003.
11. "Elections in Iraq a Possibility Next Year, Bremer Says," *New York Times,* July 31, 2003.
12. Steven R. Weisman, "Powell Gives Iraq 6 Months to Write New Constitution," *New York Times,* September 26, 2003.
13. "Iraqi Handover to Be Speeded Up," http://news.bbc.co.uk, November 2, 2003.
14. Fromkin, *Peace to End All Peace,* p. 449f.
15. Ibid., p. 453.
16. Ibid., p. 497, 503.
17. Ibid., p. 507f.
18. Ibid. p. 508.
19. Yergin, *Prize,* p. 195.

109