Niall Ferguson


The Cash Nexus
Contents

List of Tables

List of Figures

List of Illustrations

Abbreviations

Introduction

SECTION ONE: SPENDING AND TAXING

1. The Rise and Fall of the Warfare State

2. ‘Hateful Taxes’

3. The Commons and the Castle: Representation and Administration

SECTION TWO: PROMISES TO PAY

4. Mountains of the Moon: Public Debts

5. The Money Printers: Default and Debasement

6. Of Interest

SECTION THREE: ECONOMIC POLITICS

7. Dead Weights and Tax-eaters: The Social History of Finance

8. The Myth of the Feelgood Factor

9. The Silverbridge Syndrome: Electoral Economics

SECTION FOUR: GLOBAL POWER


11. Golden Fetters, Paper Chains: International Monetary Regimes

12. The American Wave: Democracy’s Flow and Ebb

13. Fractured Unities

14. Understretch: The Limits of Economic Power

Conclusion

Appendices

Bibliography
Notes

Acknowledgements
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For Mary and May
'Ferguson combines an ability to make statistics dance ... with a prodigious range of literary and historical reference ... “Money,” the Bible said, “answereth all things,” but as Niall Ferguson proves with such scholarly verve, it never quite answereth them completely’ Martin Vander Weyer, *Literary Review*

‘Brilliant’ Rory O’Donnell, *Irish Times*

‘Whatever Niall Ferguson writes is of intense interest. In *The Cash Nexus* he explores perhaps the greatest force in recent history’ Melvyn Bragg, *BBC History*

‘Erudite and noble ... a welcome caution against the naïve expectations of fashionable triumphalists’ David Calleo, *The New York Times*

‘Ferguson is always thoroughly analytical, engaging and engaged’ James Davidson, *Daily Telegraph*

‘Not only original and creative but [also] deeply researched’ Daniel Yergin, *Wall Street Journal*

‘A rigorous historical analysis of the interaction of money and power over the past 300 years’ John Gray, *New Statesman*

‘Niall Ferguson challenges some central assumptions about the relationship between money and power ... This book is diamantine in its appeal, and it is immensely well researched’ Bill Jamieson, *Scotsman*

‘Ferguson’s greatest achievement is in using this narrative to make us rethink the connections between cash and power’ Sean Coughlan, *The Times Higher Education Supplement*
List of Tables

1. Defence expenditure as a percentage of total public spending, 1891–1997
2. Average annual central government budget deficits as a percentage of national product, selected periods
4. European price inflation during and after the First World War
5. Increase or decrease in the British national debt by sub-periods, 1822–1997
6. The structure of European national debts, circa 1993
7. Determinants of fluctuations in the price of consols, 1845–1900, as cited in *The Economist*
8. The bondholders and the British national debt, 1804–1870
9. Redistribution of income through taxes and benefits, United Kingdom 1992, by quintile groups of households (£ per year)
10. Dependency ratios, actual and projected, 1900–2050
11. Reasons for changes of government or prime minister, 1832–1997
12. British economic indicators and election results, 1918–1997: change since previous election
13. Individual membership of the three major British political parties, 1953–1997
14. Foreign holdings of developed countries’ national debts, circa 1993
15. Wars, revolutions and the bond market, 1830–1914
16. Anticipated and real premiums on selected international bonds, 1850–1983
17. Indicators of commercial and financial globalization
19. Exchange rate regimes and inflation
21. Average democracy score per country, by regions, 1800–1998
22. Average democracy score (maximum 1.00, minimum 0.00) for 136 countries, 1975–1994
23. The Jews in economic elites: selected statistics
24. World population and the number of independent states since 1871
25. Military expenditure of the world’s principal powers (in US $millions, at constant 1995 prices and exchange rates)

Appendices

A. The biggest wars in history
B. Multiple regression of British government popularity and economic indicators
C. The global bond market, June 1999
D. Public debt burdens in 1887–1888
E. Economic and social indicators and the inter-war crisis of democracy, 1919–1938
List of Figures

1. The ‘square of power’
2. Military personnel as a percentage of population, 1816–1997 (log. scale)
3. Defence spending per serviceman in Britain and the United States, 1816–1998 (log. scale)
4. Defence spending as a percentage of national product, 1850–1998 (log. scale)
5. Income tax as a percentage of taxation, 1866–1999
6. Electorate as a proportion of population aged above 20, 1815–1974
7. Government employment as a percentage of total employment, 1960–1999
8. Public debt/GNP ratios since the late seventeenth century
9. Debt service as a percentage of government expenditure, 1802–1999
11. The real growth rate minus the real interest rate in Britain, 1831–1997
12. British and French bond yields, 1753–1815
13. Major bond yields since 1700 (annual averages)
15. Monthly bond yields, 1914–1945
17. Real returns on British and American bonds since 1700 (decennial averages)
18. Relative poverty rates before and after taxation and transfers, 1991
19. Two alternative ways of achieving generational balance (percentage increases required)
20. President Clinton’s approval rating and the Dow-Jones Index, 1993–2000
21. Government lead (left-hand axis) and the ‘misery index’ (right-hand axis), 1948–2000
22. The real cost of British elections: candidates’ declared general election expenses, 1880–1997
23. Total general election expenditure of the three main British parties, 1964–1997 (thousands of 1997 pounds)
25. Individual Labour Party membership as a percentage of the UK population, 1928–1997
27. Government bonds as a percentage of all securities quoted on the London Stock Exchange, 1853–1990
28. Yield spreads over consols, 1870–1913
29. Exchange rates of major currencies per US dollar, 1792–1999 (1913 = 100)
30. World gold production, five-yearly totals, 1835–1989 (metric tonnes)
31. US dollars per ecu/euro, 1975–1999
32. The rise of democracy, 1800–1996
33. The average democracy ‘score’ for 29 European countries, 1900–1950
34. Real national product indices for European democracies, 1919–1939 (1927 = 100)
35. Real national product indices for European ‘dictatorships’, 1919–1939 (1927 = 100)
36. Number of wars in progress per year, 1816–1992
37. Circles of interest
List of Illustrations

1. James Gillray, Begging No Robbery: – i.e. – Voluntary Contribution: – or John Bull, escaping a Forced Loan, 1796
2. James Gillray, after ‘F. L. Esq.’, John Bull Ground Down, 1795
3. H. Heath, after George Cruikshank, The Pillar of State, or John Bull Overloaded, 1827
4. Francis Jukes, An Historical, Emblematical, Patriotic and Political Print representing the English Balloon or National Debt in the Year 1782 with a Full View of the Stock Exchange, and its supporters the Financiers, Bulls, Bears, Brokers, Lame Ducks, and others, and a proportionable Ball of Gold, the specific size of all the Money we have to pay it with supposing that to be Twenty Millions of Pounds sterling; the Gold and Silver Trees entwined with Serpents & upheld by Dragons for the pleasure of Pluto & all his Bosom Friends, 1785
5. James Gillray, Midas, Transmuting all into Paper, 1797
6. Anon. (English School), The National Parachute, or John Bull Conducted to Plenty and Emancipation, 1802
7. Anon. (English School), The Tree of Taxation, 1838
8. George Cruikshank, The ‘System’ that ‘Works so Well’!! – or The Boroughmongers’ Grinding Machine, 1831
9. Cheffins, King Cash! – The Boss of Every Election, from ‘Illustrated Bits’, 1885
10. Thomas Derrick, Sentiment on the Stock Exchange, from ‘Punch’, 1938
11. Olav Gulbransson, Worshipping the Almighty Dollar, from ‘Simplicissimus’, 1923
13. James Gillray, The Plumb-pudding in danger: or State Epicures taking un Petit Souper, 1805
14. James Gillray, The Giant Factotum amusing himself, 1797

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Abbreviations

ECB  European Central Bank  
GDP  Gross Domestic Product  
GNP  Gross National Product  
HMSO  Her Majesty’s Stationery Office  
IISS  International Institute for Strategic Studies  
IMF  International Monetary Fund  
INSEE  Institut National de la Statistique et des Études Économiques  
NBER  National Bureau of Economic Research  
NIC  National Insurance Contributions  
NNP  Net National Product  
OECD  Organisation of Economic Cooperation and Development  
ONS  Office of National Statistics  
OPEC  Organization of Petroleum Exporting Countries  
PSBR  Public Sector Borrowing Requirement  
SIPRI  Stockholm International Peace Research Institute  
SPD  Social Democratic Party of Germany
Introduction: The Old Economic Determinism and the New

Money makes the world go round, of that we all are sure – On being poor.

*Cabaret* (1972)

The idea that money makes the world go round – as the Master of Ceremonies sang in the musical *Cabaret* – is an old one, yet remarkably resilient. It is there in the Bible, in both the Old and the New Testaments: compare ‘Money answereth all things’ (Ecclesiastes 10: 19) with ‘The love of money is the root of all evil’ (1 Timothy 6: 10). The sin of avarice was, of course, condemned by Mosaic law. But in Christian doctrine, as the second aphorism suggests, even the normal pecuniary motive was condemned. Part of the revolutionary appeal of Christ’s teaching was the prospect that the rich would be excluded from the Kingdom of God: it was easier ‘for a camel to go through the eye of a needle, than for a rich man to enter into the kingdom of God’ (Matthew 19: 24).

Plainly, Western Europe would not have progressed so successfully from feudalism to capitalism had this dogma deterred people from making money. The point, of course, was that it did nothing of the sort. Rather, it consoled those (the majority) who had no money and instilled a sense of guilt in those who had much: an optimal strategy for an organization seeking both mass membership and substantial private donations from the élite.

The notion of a fundamental conflict between morality and Mammon also informed the most successful ‘secular religion’ of modern times. To Karl Marx and Friedrich Engels what was odious about their own class, the bourgeoisie, was its ethos of ‘naked self interest’ and ‘callous “cash payment”’. Of course, Marx’s claim that the internal contradictions of capitalism would precipitate its own downfall was supposed to be ‘scientific’ and ‘objective’. It was the inexorable rise of capitalism and the bourgeoisie that had overthrown the feudal aristocratic order; in turn, the formation in the factories of an impoverished but immense proletariat would inevitably destroy capitalism and the bourgeoisie. Marx was contemptuous of the faith of his ancestors, and indifferent to the Lutheranism his father had adopted. Yet Marxism would not have won so many adherents if it had not offered the prospect of a secular Day of Judgement in the form of the promised revolution in which, once
again, the rich would get their deserts. As Isaiah Berlin observed, the more thunderous passages in *Capital* are the work of a man who ‘in the manner of an ancient Hebrew prophet … speaks the name of the elect, pronouncing the burden of capitalism, the doom of the accursed system, the punishment that is in store for those who are blind to the course and goal of history and therefore self-destructive and condemned to liquidation’. Marx’s debts to Hegel, Ricardo and the French Radicals are well known. But it is worth recalling that the *Communist Manifesto* also owed a debt to a more overtly religious and indeed conservative critique of capitalism. It was in fact Thomas Carlyle who coined the phrase ‘cash nexus’ in his *Chartism* (1840), though where Marx looked forward to a proletarian utopia, Carlyle regretted the passing of a romanticized medieval England.

Though it is no longer fashionable to do so, it is possible to interpret Richard Wagner’s *The Ring of the Nibelung* as another romantic critique of capitalism. Its central argument, as one of the Rhine maidens tells the dwarf Alberich in the very first scene, is that money – to be precise, gold which has been mined and worked – is power: ‘He that would fashion from the Rhinegold the ring / that would confer on him immeasurable might / could win the world’s wealth for his own.’ But there is a catch: ‘Only he who forswears love’s power, / only he who forfeits love’s delight, / only he can attain the magic / to fashion the gold into a ring.’ In other words, the acquisition of wealth and emotional fulfilment are mutually exclusive. His lecherous advances having been mockingly rebuffed by the Rhine maidens, Alberich has little difficulty in opting for the former: significantly, the first act of capital accumulation in *The Ring* is his theft of the gold.

This is not the only economic symbolism in *The Rhinegold*. The next scene is dominated by a contractual dispute between the god Wotan and the giants Fafner and Fasolt, who have just completed the construction of a new fortress, Valhalla. It is the third scene, however, that contains the most explicit economics. Here we see Alberich in his new incarnation as the heartless master of Nibelheim, mercilessly sweating his fellow dwarfs, the Nibelungs, in an immense gold factory. As his wretched brother Mime explains, his people were once ‘carefree smiths’ who ‘created / ornaments for our women, wondrous trinkets, / dainty trifles for Nibelungs, / and lightly laughed out our work’. But ‘now this villain compels us / to creep into our caverns / and ever toil for him alone … without pause or peace’. The relentless pace of work demanded by Alberich is memorably evoked by the sound of hammers rhythmically striking anvils. It is a sound we hear again later in the cycle when Siegfried reforges his father’s shattered sword Notung: perhaps the only example of a breakthrough in arms manufacturing set to music.
Of course, few serious Wagnerians nowadays would wish to overplay the economic theme in The Ring. What still seemed fresh in the 1976 production at Bayreuth was tired by 1991, when a Covent Garden production dressed Alberich in a top hat and Siegfried in a worker’s blue overalls. On the other hand, it was Wagner himself who compared the smog-filled London of his day with Nibelheim. Nor is it without significance that he first conceived the cycle in the revolutionary year 1848, shortly before taking to the barricades of Dresden alongside the anarchist Mikhail Bakunin (where the two passed the time by sketching out a blasphemous crucifixion scene for a projected opera entitled ‘Jesus of Nazareth’). By the time the completed Ring was given its first performance in August 1876 Wagner had certainly moved away from the radical politics of his youth. But to the young Irish writer George Bernard Shaw, who turned 20 that same year, the economic subtext of Wagner’s work was still discernible: he was even seen in the Reading Room of the British Museum studying the orchestral score of Tristan und Isolde alongside a French translation of Marx’s Capital. For Shaw, The Ring was an allegory of the class system: Alberich was a ‘poor, rough, vulgar, coarse fellow’ who sought ‘to take his part in aristocratic society’ but was ‘snubbed into the knowledge that only as a millionaire could he ever hope to bring that society to his feet and buy himself a beautiful and refined wife. His choice is forced upon him. He forsakes love as thousands forswear it every day; and in a moment the gold is in his grasp.’

The crux of Wagner’s Gesamtkunstwerk is the curse Alberich places on the ring at the moment it is stolen from him by the gods:

Since its gold gave me measureless might,
now may its magic bring death to whoever wears it!
... Whoever possesses it shall be consumed with care,
and whoever has it not be gnawed with envy!
Each shall itch to possess it,
but none shall in it find pleasure!
Its owner shall guard it profitlessly,
for through it he shall meet his executioner!

That curse is ultimately fulfilled with Siegfried’s murder in Twilight of the Gods, at the end of which Brünnhilde flings herself on to his funeral pyre, hurls the ring back into the Rhine and sets ‘Valhalla’s vaulting towers’ ablaze in an almost unstageable conflagration.

It is no coincidence that Marx foresaw a similar end for capitalism in the first volume of his Capital – a work comparable with The Ring in scale if not in aesthetic beauty. In chapter 32, Marx gives a memorable sketch of capitalist economic development:

The transformation of the individualized and scattered means of production into socially concentrated means of production, the transformation, therefore, of the dwarf-like property of the many into the giant property of the few and the expropriation of the great
mass of the people from the soil, from the means of subsistence and from the instruments of labour ... forms the pre-history of capital ... Private property which is personally earned ... is supplanting by capitalist private property, which rests on the exploitation of alien, but formally free labour. 7

The imagery of dwarves and giants is at least suggestive. Moreover, like Wagner, Marx foresees a day of reckoning:

Along with the constant decrease of the number of capitalist magnates, who usurp and monopolize all the advantages of this process of transformation, the mass of misery, oppression, slavery, degradation and exploitation grows; but with this there also grows the revolt of the working class, a class constantly increasing in numbers, and trained, united and organized by the very mechanism of the capitalist mode of production. The monopoly of capital becomes a fetter upon the mode of production ... The centralization of the means of production and the socialization of labour reach a point at which they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated. 8

A later German Marxist, August Bebel, made the parallel explicit when he prophesied ‘the twilight of the gods of the bourgeois world’.

The least original thing about Capital was its prediction that capitalism would go the way of Valhalla. The idea of an approaching cataclysm was, to use another Wagnerian term, one of the great leitmotifs of nineteenth-century culture, and was far from being the sole property of the political Left. On a smaller scale, the topos of dissolution as a consequence of economic modernization recurs throughout nineteenth-century literature. In Theodor Fontane’s nostalgic novel Der Stechlin, published in 1899, the local glass factory at Globsow symbolizes the impending collapse of the old rural order in the Mark of Brandenburg. As the old Junker Dubslav von Stechlin laments:

They ... send [the stills which they manufacture] to other factories and right away they start distilling all kinds of dreadful things in these green balloons: hydrochloric acid; sulphuric acid; smoking nitric acid ... And each drop burns a hole, whether in linen, or in cloth, or in leather; in everything; everything is burnt and scorched. And when I think that my Globsowers are playing a part, and quite happily supplying the tools for the great general world conflagration [Generalweltanbrennung] – ah, meine Herren, that gives me pain. 9

Nor was this association of capitalism with dissolution a German peculiarity. In Dickens’s Dombey and Son, the railways which carve their way through London are sinister agents of destruction and death. In Zola’s L’Argent, the rise and fall of a bank provides a metaphor for the rottenness of Louis Napoleon’s Second Empire. In a not dissimilar vein, Maupassant’s Bel-Ami portrays the corruption of a presentable young man in the Third Republic: here all human relationships are subordinated to the manipulation of the stock exchange. 10

Perhaps this outlook is not wholly surprising. As an occupational group, professional writers have always been conspicuously ungrateful for the
benefits conferred by economic progress, not the least of which has been a huge expansion in the market for printed words. Fontane, Dickens, Zola and Maupassant were all beneficiaries of that expansion, though Wagner had to rely on the artist’s traditional prop of royal patronage. As for Marx, he depended on handouts from the factory-owning, fox-hunting Engels, bequests from his wife’s wealthy Rhineland relatives or – richest of ironies – his own occasional stock market speculations. In 1864 he confessed to a friend that he had been speculate –partly in American funds, but more especially in English stocks, which are springing up like mushrooms this year (in furtherance of every imaginable and unimaginable joint stock enterprise), are forced up to quite an unreasonable level and then, for the most part, collapse. In this way, I have made over £400 and, now that the complexity of the political situation affords greater scope, I shall begin all over again. It’s a type of operation that makes small demands on one’s time, and it’s worth while running some risk in order to relieve the enemy of his money.

Like most unsuccessful ‘day-traders’, however, Marx never had enough money in hand to make his longed-for ‘killing on the Stock Exchange’.11

The reality was, of course, that the second half of the nineteenth century witnessed unprecedented economic growth in most of the world, and not even Marx could resist the lure of the mid-Victorian boom. Moreover, when the socialist revolution finally came, it afflicted not the most advanced industrial societies but mainly agrarian ones like Russia and China. Yet the romantic notion, which Marx shared with Carlyle, Wagner and so many others of the Victorian generation, that the world had entered into a kind of Faustian pact – that industrialization would be bought at the price of human degradation and ultimately a ‘general world conflagration’ – outlived the generation of 1848. At once materialist in conception and romantic at heart, an entire library of history has been based on the assumption that there was something fundamentally amiss with the capitalist economy; that the conflict of interest between the propertied few and the impoverished many was irreconcilable; and that some kind of revolutionary crisis would bring about a new socialist order.

Consider just two examples. A central question which historians still address today is the one posed by many radicals following the failure of the 1848 revolutions: why did the bourgeoisie prefer authoritarian, aristocratic regimes to workers’ and artisans’ movements with which they could (in theory) have made common cause? The answer offered by Marx in The Eighteenth Brumaire of Louis Bonaparte was that, so long as their economic aspirations were not obstructed, the middle classes were willing to relinquish their political aspirations and to leave the old regime substantially in charge, in return for protection from an increasingly threatening proletariat. The influence of this model would be hard to exaggerate. Typical of the way
historians have continued to work with Marxist concepts (even when not themselves overtly Marxist) has been the link often posited between the ‘Great Depression’ of the 1870s and 1880s and the contemporaneous shift away from liberalism towards protectionism in most European countries, notably Germany. The First World War too has frequently been interpreted as a kind of capitalist Generalweltanbrennung, the inevitable consequence of imperialist rivalries. According to the posthumously influential German historian Eckart Kehr, the explanation for Wilhelmine Germany’s commitment to a two-front war lay in the Prussian agrarians’ desire for tariffs, which antagonized Russia; the heavy industrialists’ desire for naval orders, which antagonized Britain; and their combined desire to combat the advance of Social Democracy by a strategy of ‘social imperialism’, which antagonized both. Despite much tinkering at the margins, the influence of this approach is still discernible today.

The greatest advantage of Marx’s model is its simplicity. Armed with dialectical materialism, the historian can grapple with bigger subjects and longer periods than the historicist who struggles, as Ranke exhorted, to understand each epoch in its own terms. It is not without significance that two of the most ambitious works of historical writing of the past half-century have been by Marxists: Immanuel Wallerstein’s Modern World System and Eric Hobsbawm’s four-volume history of the modern world, completed as late as 1994. In the final Age of Extremes, Hobsbawm sought to salvage some consolation for his generation of Communist intellectuals by arguing that capitalism had been rescued from its own collapse in the 1930s and 1940s only by the economic and military might of Stalin’s Soviet Union; and that the collapse of the latter in the 1990s was no more than a temporary setback for the socialist critique of capitalism. State ownership and central planning might have failed in Russia, Hobsbawm conceded, but it ‘could hardly be doubted’ that ‘Marx would live on as a major thinker’; whereas the doctrine of the ‘unrestricted free market’ had been just as discredited by the ‘generally admitted ... economic failure’ of Thatcherism. Moreover, demographic and economic pressures on the global environment were already paving the way for an ‘irreversible crisis’. Sustainable development was ‘incompatible with a world economy based on the unlimited pursuit of profit by economic enterprises dedicated, by definition, to this object and competing with each other in a global free market’. The widening gap between rich and poor nations was also ‘accumulating future troubles’, as was the widening gap between rich and poor individuals within developed economies, which would sooner or later necessitate a restoration of state control over the economy: ‘Non-market allocation of resources, or, at least [sic], ruthless limitation of market allocation, was essential to head off the impending ecological crisis....
The fate of humanity … would depend on the restoration of public authorities.’

Nor could Hobsbawm resist concluding in the familiar apocalyptic language of the 1840s:

The historic forces that shaped the century, are continuing to operate. We live in a world captured, uprooted and transformed by the titanic economic and techno-scientific process of the development of capitalism … We know, or at least it is reasonable to suppose, that it cannot go on ad infinitum…. There are signs … that we have reached a point of historic crisis. The forces generated by the techno-scientific economy are now great enough to destroy … the material foundations of human life. The structures of human societies themselves … are on the point of being destroyed … Our world risks both explosion and implosion…. The alternative to a changed society is darkness.¹⁴

It is hard not to be reminded of the *Beyond the Fringe* sketch in which Peter Cooke and his followers vainly brace themselves for the end of the world, week after week.

THE NEW DETERMINISM

Yet the conspicuous failure of Marx’s prophecies to come true need not discredit the fundamental notion that it is money – economics – that makes the world go round. All that is needed is to jettison the biblical assumption of an impending apocalypse, and to recast modern economic history as a tale of capitalist triumph.

In his forthcoming history of the twentieth century, the eminent American economist Bradford DeLong is writing what may prove to be a defining text of the new economic determinism. It is certainly an antidote to the *Age of Extremes*. DeLong’s twentieth century is fundamentally ‘the story of liberty and prosperity’, in which the extremes of totalitarianism appear as a massive historical wrong-turning between two eras of benign global growth.¹⁵ Yet the fundamental assumption – that economic change is the motor of history – is not so different from Hobsbawm’s. According to DeLong:

> the history of the twentieth century was overwhelmingly economic history: the economy was the dominant arena of events and change, and economic changes were the driving force behind changes in other areas of life … The pace of economic change was so great as to the shake the rest of history to its foundation. For perhaps the first time, the making and using the necessities of and conveniences of daily life – and how production, consumption and distribution changed – was the driving force behind a single century’s history.¹⁶

Even the mid-century dictatorships ‘had their origins in economic discontents and found their expressions in economic ideologies. People killed each other in their millions over how economic life should be organised.’¹⁷ DeLong goes so far as to explain even the Second World War in economic terms: ‘It is hard to see World War II in the absence of Adolf Hitler’s insane idée fixe that the
Germans needed a better land-labour ratio – more “living space” – if they were to be a strong nation.'\textsuperscript{18} However, these were erroneous ideologies, the malformed offspring of the catastrophic mismanagement of economic policy during the Great Depression. Only in the final decade of the twentieth century, with the collapse of Communism and the global acceptance of liberalized markets, could history resume the upward trajectory of the pre-1914 period.

DeLong’s claim that the principal political events of modern history can be explained in economic terms has a distinguished pedigree. It will also find widespread public assent, particularly in the United States, where this kind of economic determinism is close to being conventional wisdom. In what follows, I will deal in detail with a number of different versions of this idea; at this stage it will suffice to sketch three typical hypotheses:

1. Economic growth promotes democratization (and economic crises have the opposite effect). This idea can be traced back to the work of the social scientist Seymour Martin Lipset since the late 1950s,\textsuperscript{19} and has found widespread endorsement in numerous recent studies by political scientists and economists such as Robert Barro, who detects ‘a strong positive linkage from prosperity to the propensity to experience democracy’.\textsuperscript{20} In the words of another eminent American economist, Benjamin Friedman, ‘a society is more likely to become more open and tolerant and democratic when its citizens’ standard of living is rising, and to move in the opposite direction when living standards stagnate’.\textsuperscript{21} The most obvious example which most readers will think of is a negative one: the causal link – which can be found in innumerable textbooks – between the Great Depression, the rise of Hitler and fascism generally and the origins of the Second World War. Here is a classic example of the argument:

The immediate effect of the economic crisis in Europe was to increase domestic political and social tensions, to bring Hitler to power in Germany and to encourage the development of fascist movements elsewhere.... But the economic crisis was also a world crisis ... In particular the disastrous results for the Japanese economy of the loss of her silk exports, and the undoubted hardship caused to Japanese peasants and small farmers, contributed to a new expansionist policy on the part of the Japanese army.\textsuperscript{22}

2. Economic success ensures re-election (and poor economic performance leads to election defeat). According to one school of political science, voters are primarily motivated by their economic experience or prospects in making their choices at elections. In the words of Helmut Norpoth, ‘Economic voting ... is hard-wired into the brain of citizens in democracies.’\textsuperscript{23} This has encouraged many politicians to pin their hopes of re-election on the ‘feelgood factor’: the belief that the popularity of a government is a function of the performance of the economy. A widely held version of this theory explained President Clinton’s survival of the 1999 impeachment process with reference to the sustained rise of the US stock market. The 1992 Clinton campaign watchword - ‘It’s the Economy, Stupid’ - has become a kind of shorthand for this theory.

3. Economic growth is the key to international power (but too much power can lead to economic decline). In The Rise and Fall of the Great Powers, Paul Kennedy argued that economics provided the key to the history of international relations: ‘all of the major shifts in the world’s military-power balance have followed alterations in the productive balances ... where victory has always gone to the side with the greatest material resources.’\textsuperscript{24} Given the