

Jeffrey Yozwiak
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Power and Plenty: Trade, War, and the World Economy in the Second Millennium by Ronald Findlay and Kevin H. O'Rourke
Clashing over Commerce: A History of US Trade Policy by Douglas A. Irwin

Origins of the *Pax Britannica* and the *Pax Americana*

Britain and America's ascensions to hegemony illustrate the virtuous cycles of "power and plenty" (Findlay and O'Rourke *xix*). The *Pax Britannica* (1815–1914) and the *Pax Americana* (1945–present) were characterized by relative peace and relatively free trade between large parts of the world. This paper will focus the conditions that gave rise to each superpower's dominance. British and American foreign policies shared some similarities: both countries created large free trade zones and both spent heavily on their militaries. They also both benefited from fortunate geographic locations. However, the motivations and economic policies of the two countries were diametrically opposed. The result, perhaps, was that global growth patterns differed significantly during these two periods. Regardless of the differences, though, wealth led to geopolitical power and geopolitical power brought further wealth—a virtuous cycle.

Britain and America both created large free trade zones for geopolitical reasons. The *Pax Britannica* was distinguished by relatively freer trade *within* the British Empire—which controlled a large portion of the world.¹ In the mercantilist era, "nations systematically excluded their enemies from protected markets" (Findlay and O'Rourke 345). The British accomplished this in two ways: through protectionist legislation, and through military success. The Navigation Acts of 1651 and 1660 and the Staple Act of 1663 excluded the Dutch from "the carrying trade across the Atlantic" (243); import duties were an important weapon in the trade wars and in 1800 were the source of one-third of British tax revenue (257). Moreover, the "ever-present" warfare in the mercantilist era was itself a significant barrier to trade (306–7). The Royal Navy, though, protected "merchant shipping in distant waters" (310). The freer trade within the Empire—and with territories, like the United States, that had strong ties with the Empire—supported England's booming economy during the Industrial Revolution:

By the late eighteenth century . . . English manufacturers were finding themselves increasingly excluded from markets in [Western Europe]. Not surprisingly, therefore, between 1780 and 1801 the Americas accounted for roughly 60% of additional British exports

British innovators were thus crucially dependent on overseas markets as their industries expanded. [In] a mercantilist world in which nations systematically excluded their enemies from overseas markets, . . . British military success over

¹ 24% of the globe in 1920, according to the CIA's *World Factbook*.

the French and other European rivals was an important ingredient in explaining her subsequent rise to economic prominence. (345)

This advantage persisted well into the twentieth century. The American efforts to create a global trading system after WWII would have failed without British cooperation:

Britain still played a leading role in international trade and finance, and led a large number of Commonwealth countries Britain could create its own formidable trade bloc based on the preferential tariffs in the Ottawa agreements and the sterling-based payments system. (Irwin 457)

After WWII, America too created a free trade zone to challenge its rivals. The global trade agreements of the *Pax Americana* will be familiar to most readers. America pursued multilateral trade agreements after WWII for a variety of reasons—to be detailed further below—but one among them was to “[contain] the spread of Soviet Communism” (495).² The Western bloc was ultimately united not only by ideology but also by trade between its members.

Both Britain and America “achieve[d] . . . astonishing feats of global force projection” by creating “fiscal-military state[s]” to outspend their rivals (Findlay and O’Rourke 254). Britain “command[ed] the oceans of the world” (254), but “navies were extremely expensive” (256). Britain triumphed in its long conflict with France in part because of its superior ability to collect taxes: “Britain extracted twice as much tax revenue in real per capita terms as did France over most of the eighteenth century, and three times as much during the Napoleonic Wars” (257). Britain created a “naval-industrial complex” (347): military spending was an “astonishing” 70–83% of government expenditure and 16% of national income (351). Similarly, during WWI, US federal expenditures increased 25-fold—“soar[ing] from \$742 million in 1916 to \$18.9 billion in 1919” (Irwin 340)! While the British had derived most of their tax revenue from tariffs, though, the US found import duties insufficient and instead raised income taxes.³ (Historically, democracies tend to have more effective tax collection regimes. Representative governments “actually levy more taxes, not fewer” (Findlay and O’Rourke (350).) During WWI, US military spending spiked to over 20% of GDP; during WWII, US military spending again rose to over 40% of GDP.⁴ Today, the US spends more on its military than the next seven countries combined.⁵

However, both Britain and America also owe their fortunes partly to geography. Western Europe “stumble[d] across” the vast resources of the Americas first because of the favorable sailing conditions in the Atlantic (Findlay and O’Rourke 361) (“the conditions facing Asian

² The CIA wrote in 1947 that, “The greatest danger to the security of the United States is the possibility of economic collapse in Western Europe and the consequent accession to power of Communist elements” (Irwin 495).

³ Through the Revenue Act of 1916. The Revenue Act of 1935 raised income taxes even more, but Irwin does not cover it.

⁴ According to data aggregated by Christopher Chantrill at [usgovernmentsspending.com](https://www.usgovernmentsspending.com/spending_chart_1792_2017USp_18s2li011lcn_30f_Recent_Defense_Spending): https://www.usgovernmentsspending.com/spending_chart_1792_2017USp_18s2li011lcn_30f_Recent_Defense_Spending.

⁵ *The New York Times* summarized data provided by the US government in 2017: <https://www.nytimes.com/interactive/2017/03/22/us/is-americas-military-big-enough.html>.

navigators were much less favorable” (361)). Sailing conditions on the Atlantic also later supported and reinforced the “Atlantic System” of trade between Britain, Africa, and the American colonies (339). Moreover, as a small island, Britain needed to pursue imperialistic ambitions in order to grow. China could have rivaled Britain during the eighteenth and nineteenth centuries, but, “while the *capability* was there[,] the *incentive* was lacking” (363). China was large enough to be “relatively self-sufficient” (363). Similarly, on the western side of the Atlantic, the US found the “vast resources of the ‘Great Frontier’” to be “relatively easy pickings” (361). The US was also spared the devastation wrought by WWI and WWII. Aside from Pearl Harbor, WWI and WWII both took place entirely on foreign soil; the Atlantic and Pacific Oceans were (and still are) effective natural barriers to invasion. The US emerged as the “dominant world power” after WWI because its capital stock had remained intact (Irwin 416).

The ascensions of Britain and America, then, illustrate the virtuous cycle of power and plenty. Both countries united large areas of the world through trade. These free trade zones served their political interests in the short term and brought them wealth in the long term. Both countries spent heavily on their militaries to protect these free trade zones, and this spending was possible in part because they were wealthy. They had “stronger tax base[s]” (Findlay and O’Rourke 257). Both countries, moreover, were wealthy in part due to their fortunate geographic locations. The rise of each country was thus a combination of effective policies and luck. Britain and America were in the right places and the right times and they both exploited their opportunities.

The British and American economic policies, though, were polar opposites. Mercantilism was synonymous with protectionism and, from a global standpoint, inarguably inefficient. The constant wars necessitated high levels of military spending; during the seventeenth and eighteenth centuries, British military spending crowded out private investment (Findlay and O’Rourke 257). The British mercantilists also lobbied for “national monopolies granted by Parliament” (Findlay and O’Rourke 240). These royal monopolies were both uneconomical and a barrier to trade (307). The British furthermore retained their mercantilist tendencies into the twentieth century: during the initial WWII trade negotiations, they were reluctant to relinquish their imperial preferences. The Americans, in contrast, found isolationism discredited by the Great Depression and “outrageously excessive rates” of the Hawley-Smoot tariff (1930) (Irwin 452, 416). The Washington Consensus policies of the latter twentieth century have since advocated trade liberalization as the path to growth.

The British and American geopolitical motivations were also diametrically opposed. Under the mercantilist worldview, “Power . . . was necessary to secure the provision of Plenty” (Findlay and O’Rourke 247). If the world was “zero-sum (or even negative sum)” (310), then a nation thrived at the expense of its rivals. Imperialist expansion not only enabled economic growth but also weakened enemies. Mercantilism was thus both an economic policy and a strategy for national defense—with national security taking priority. “Even Adam Smith defended the Navigation Acts, on the grounds that ‘defense is more important than

opulence” (i.e., the efficiency gained by free trade) (238).⁶ In contrast, the Americans supported “expanding trade to promote peace” (Irwin 448). The context had changed: America and the rest of the world were reeling from the Great Depression and two world wars. America’s trade policy was formulated by Cordell Hull, Secretary of State under President Roosevelt.

“When war came in 1914, I was very soon impressed with two points,” Hull wrote . . . “I saw that you could not separate the idea of commerce from the idea of war and peace” and that “wars were often largely caused by economic rivalry conducted unfairly.” In Hull’s view, the quest of the European powers to gain access to foreign markets, particularly the competitive rivalry to establish colonial empires and secure preferential access to the world’s raw materials, was a factor behind the international tensions that eventually led to military conflict. Hull “came to believe that if we could eliminate this bitter economic rivalry, if we could increase commercial exchanges among nations . . . we would go a long way toward eliminating war itself.” (420)

After WWI, the US was left as “the dominant world power” (456–7). The Americans did *not* view this as an opportunity to exploit other nations. Rather, they believed their strength obligated them to “provide leadership” on the long path toward peace and the resumption of world trade (456).

Finally, the economic growth of the rest of the world followed different patterns during the hegemonies of the two powers. During the *Pax Britannica*, there was a “Great Divergence”: “the nineteenth century saw a massive divergence of living standards between the different regions of the world” (Findlay and O’Rourke 414). Britain’s triumph during the mercantilist era created the conditions for its Industrial Revolution, which brought further wealth and enabled Britain to project its influence around the globe. The “Great Divergence” was “due to the industrial countries pulling ahead [of the rest of the world], rather than to the poorer regions getting poorer” (414). During the *Pax Americana*, on the other hand, incomes of countries around the world converged, with “growth rates . . . being highest in those economies which had been initially poorest” (518). “Convergence . . . tended to be associated with a growing openness to trade” (520)—exactly the policies that the Americans advocated.⁷

The British and American economic policies—and the motivations behind them—differed because the contexts were different. In the “mercantilist world, it was important to win one’s wars” (Findlay and O’Rourke 310); Britain did and accordingly rose to power. The mercantilist era was marked by constant conflict but, by the end of WWII, the world was weary of war. The Great Depression had also discredited protectionism. Free trade instead became the path to peace and prosperity. By leading the liberalization of global trade, America ascended.

⁶ Smith also wrote in the *Wealth of Nations* that “Nations have been taught that their interest consisted in beggaring all their neighbors. . . . Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity.”

⁷ The “economic miracles” occurred primarily in Asia (516–7); growth in Latin America and Africa was “disappointing” (520). Openness to trade was “a necessary condition for convergence [but] by no means sufficient” (520).

Countries interact through conflict and commerce. Through heavy military spending, Britain and America created and protected free trade zones. This trade in turn brought them wealth that compounded the advantages bestowed by their favorable geographies. Britain and America did follow diametrically opposed economic theories and they expanded their global influence for different reasons. Britain had to dominate her rivals under the mercantilist system. In the postwar era, in contrast, America was right to champion peace and international cooperation. The results of these policies were that world incomes diverged during the *Pax Britannica* and then converged during the *Pax Americana*. The ascensions of Britain and America illustrate that power leads to plenty and plenty leads to power.