Chapter 1
Capitalism and Elite Feud: A Short Introduction

Abstract This chapter presents a short introduction and chapter wise summary. The book sets out to confront the question what motivates imperial expansion under the capitalist economic system? In particular, it focuses on the economic motivations of expansion. This undoubtedly is related to two fundamental research questions in economic sciences. First, what factors explain the divergence in living standards across countries? Second, what ensures internal and external stability of the capitalist economic system? Overall, the book is divided into five parts. Part I presents a theoretical framework. Part II deals with the history of Early Modern and Modern Europe. Part III deals with the history of the Post-war period till the present. Part IV concludes with an analysis of the geopolitical implications of COVID 19 and some predictions for the future. Part V presents a literature survey.

Imperial expansion is perhaps as old as civilisation itself. The drive towards territorial, commercial, and soft power expansion is intrinsic to all ancient civilisations. Agrarian societies such as the Ancient Rome started as a small city-state, which subsequently expanded into an imperial behemoth unprecedented in human history. A similar pattern is observed not just in the classical world of ancient Greece and Rome but also in other parts of the globe. Human history is replete with the rise and fall of empires. Maya, Inca, Ancient Egypt, Ancient and Moghul India, China, the Mongol Khanate, Ottoman Empire, British, French and Russian empires, Spanish Hapsburgs all initiate at a very small scale and then experience expansion and eventually die. The current reincarnation of superstates or conglomerates such as the Union of Soviet Socialist Republics (USSR), the European Union (EU), or the United States led post-war order are not exceptions to this pattern. The pattern is also unaffected by the nature of the empire—agrarian, industrial, post-industrial, or otherwise. What is puzzling though are the factors that drive this pattern. Beard (2015) in her influential book SPQR: A History of Ancient Rome writes,

The Romans did not start out with a grand plan. Although eventually they did parade their empire in terms of some manifest destiny, the motivations that originally lay behind their military expansion through the Mediterranean world and beyond are still one of history’s great puzzles. (p. 2, Prologue: History of Rome)
This book sets out to confront the question what motivates imperial expansion under the capitalist economic system? In particular, it focuses on the economic motivations of expansion. It argues that expansion is essential for the internal and external stability of the system. It shows that elite feud and conflict is a natural consequence of the tensions arising out of expansion. This is not to say that economic factors are the only cause of elite feud and conflict. Great power conflict and geopolitical rivalry is a multidimensional phenomenon influenced by a myriad of complex factors. The objective here is to emphasise one of the important factors without belittling the role of other factors. Being mindful of the folly of a unidimensional design, the book deliberately uses a mixed method approach to make the key argument. It presents both a theoretical framework and an extensive historical narratives spanning almost all the continents. It makes the point that this long view of elite feuds as a by-product of the expansionist capitalist system is also the key to understanding current geopolitical tensions and macroeconomic fragilities. The book also aims to examine the political economy of macroeconomic policies (especially interest rate policies) in the modern post-1991 era. The book is divided into five parts. Part I presents a theoretical framework. Part II deals with the history of Early Modern and Modern Europe. It captures elite competition, rivalry, and imperialism in Europe across different European empires. Part III deals with the history of the Post-war period till the present. Part IV concludes with some predictions for the future. Part V presents a survey of the literature.

The aim of the book is to impartially and objectively describe the historical evolution of capitalism as a politico-economic system. The book deliberately avoids discussing the merits and demerits of a particular political system or state. Even though the nature of a political system or ideological differences engenders heterogeneous politico-economic outcomes, it hardly limits elite feud or conflict. The current tension between North Atlantic Treaty Organisation (NATO) powers (e.g. United States, the European Union, and Turkey) or within the European Union (e.g. Britain and the rest of European Union regarding Brexit) are a case in point whereby tensions simmer while economic and geopolitical interests diverge. The book also avoids drawing comparisons between political systems or empires in terms of their benevolence, cruelty, or propensity to violence. Rather it acknowledges that all the competing powers are equally driven by their national/state interest and compete fiercely to achieve their goals. Some succeed, while others fail. In what follows, I present a short chapter-by-chapter summary of the entire book.

Chapter 2 entitled A Unified Theory of Rent, Elite Feuds, and Imperial Expansion studies the structure of a capitalist state. Following is a brief schematic description.

The core idea of the model is to demonstrate that capitalism is an expansionist system. It heavily relies on the expansion of the resource base, expansion of the labour force, expansion of the market, technology upgrading, and most importantly ‘economies of scale’ for growth. Growth generates economic rent and the incumbent elite protect their rent by creating entry barriers for new entrants often by using brute force. In the event of a growth slowdown, the system enters a phase of crisis and stress. In such situations elite competition, rivalry, and feud ensue. Feuds and military conflict are often the tools at the disposal of the incumbent elites to achieve
expansion of their resource base to sustain growth. This dynamic of expansion, crisis, feuds, and further expansion is the toolbox that could be used to explain the history of global capitalism.

The model presents a taxonomy of elites. It classifies them as three types—national security elite, financial and large corporation elite, and media elite. All of these elites have a vested interest in imperial expansion. As the empire expands (either directly or indirectly, more on this later), the size of the rent that these elite groups could extract also expands. Large corporations setting up production within strategic sectors provide the benefit of scale economy, monopoly power, and rent maximisation. Rent is maximised via restricting entry and increasing the size of the market through imperial expansion. This takes place irrespective of ideologies and political preferences. For example, both liberal and left-wing socialist philosophies are internationalist as they both rely on the capitalist mode of production. Therefore, globalisation of the mode of production and expansionism is at the heart of the sustainability of these systems. Hence, imperialism and elite feuds emerge after a certain stage as an inevitable consequence of the capitalist economic system.

The national security elite is relatively more nationalistic to start with as defence industries typically have a home bias. However, this changes over time. Political systems (democracy, autocracy etc.) are largely instruments of legitimacy of the elite rule. They are generally not universal and appear to be correlated with local traditions, culture, and religion. Imposition (often violently) of one type of political system (preferred by the imperial elite) over another is also common and correlated with the forces of expansionism and globalisation.

Relations between the imperial elite (the core) and the colonial elite (the periphery) is also very important. This relationship appears to be heterogeneous. Trust plays a role along with distribution of rent and patronage. For example, the European imperial elites trust the European colonial elite more than they trust the natives. This could be due to cultural ties. This could also be due to sociocultural constraints faced by the European imperial elite located at the imperial core in terms of exercising unmitigated violence or coercion towards the European colonial elite at the periphery. For instance, any atrocities or acts of coercion committed against the native population in the colonies would not affect public opinion much in the imperial core. Therefore, it is unlikely to threaten legitimacy of the imperial elite’s rule in the imperial core. In contrast, a conflict with the colonial elite of European descent could endanger the legitimacy of the imperial elite’s rule at the imperial core due to deep cultural ties. Overall, a patron–client relationship typically evolves.

Technological progress increases rent and supports expansionism thereby making the system sustainable. It also aids legitimacy of the ruling elite by improving average living standards. However, the spasmodic nature of technological progress

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1 Frequent famines in India under British colonial rule that were often manufactured by the colonial administration to bolster war efforts or other similar atrocities or mismanagement had very little influence on the public opinion in the colonial core at that time. In contrast, British belligerence during the American War of Independence led to a backlash against the pro war Tories. Whigs assumed power in the parliament that led to the Treaty of Paris and peace in 1783.
makes expansion through this channel uncertain. Typically, diminishing return sets in triggering elite competition and feuds over existing resources.

When the elite use coercion and violence (both internally and externally)? When all else fails and the elite becomes desperate and fearful about their existence. In other words, when there is a credible threat to their authority and power they resort to violence. Therefore, empires in their declining phases are often the most dangerous because of their increased propensity to resort to violence.

Elites (especially large corporations) use their economic power to control media (the information space) and hence manipulate public opinion. This is a crucial instrument for the elite for manufacturing consent and legitimacy. In addition to controlling the information space, the imperial core also uses international assistance and non-governmental assistance to buy influence and promote hegemonic interest in the periphery.

Politicians/leaders in the imperial core are only one component of the elite. Their actions are often heavily constrained by the national security and the economic/financial (large corporations) elite.

This system (or social contract) works fine as long as there are economic growth and inequality at a tolerable level. In other words, the social contract offering some improvement in living standards for everyone in the society albeit at an unequal pace. The system gets challenged when growth slows down or stops (diminishing returns), inequality rises, and growth becomes skewed (only the very top benefits from growth). Redistributive demands at the imperial core magnify. This inevitably leads to expansionist pressures with the aim of expanding access to resources (material and human) and access to markets. This lies at the heart of elite feuds, wars, and violent conflicts.

Part II of the book deals with *Rent, Elite Feuds, and Imperial Expansion in Early Modern and Modern Europe*. Chapter 3 entitled *Atlanticism, the Slave Trade, and the Westward Expansion of Western Europe* chart the history of Atlanticism and slave trade in Western Europe. It describes what prompted the Spanish and the Portuguese to engage in Atlantic or westward expansion. It covers Portuguese and Spanish involvement in maritime spice, precious metals, cotton textile, and silk trade connecting Asia, Africa, and Latin America. It describes the process of Dutch and British takeover of this trade. It covers the history of maritime trade triangle in goods, commodities, and slaves between Europe, Africa, Asia, and Latin America. In the process, it highlights imperial competition and elite feuds in the form of Anglo-Hispanic wars, Anglo-French wars, Anglo-Dutch conflict, and the American war of independence. It pays special attention to the history of the relationship between imperial elites and settlers in the new world.

Chapter 4 entitled *The Adventures and Misadventures of Imperial Expansion in Eastern and Central Europe* covers the history of eastward expansion attempts by imperial Sweden and Polish Lithuanian Commonwealth. It also covers the history of Russo-Turkic wars and expansionism by the Russian and Ottoman empires. The Crimean War between the Russian, Ottoman, Austro-Hungarian, British and French empires receives special attention, as this is a prime example of expansionism by the European empires in the dying days of the Ottomans. The chapter emphasises that
one of the key motives of this conflict was to share the spoils of the disintegrating Ottoman Empire. In addition, this chapter examines the Napoleonic invasion of Russia and the broader Napoleonic wars. The defeat of Napoleon initiated the concert of Europe, an important institution that preserved peace in the continent for almost a century. This chapter also discusses the role of the Westphalian system in preserving peace when there are competing imperial interests.

Chapter 5 entitled *Western Europe and Colonialism in India and East Asia* chart the history of expansionism by several East India Companies in India, Indonesia, and other parts of Asia. The chapter focuses on the relationship between the colonial elite and the local elite in colonial India and Indonesia. The theories of client patron relationship are analysed. Pivotal events such as the Battle of Plassey and the Mutiny are covered.

Chapter 6 entitled *Expansionism in the American and Australian Colonies* covers expansionism in the American and Australian continents. The Thirteen American colonies of Britain stayed loyal to the Monarch throughout the seventeenth and most part of the eighteenth century. The Anglo European settlers of the colony benefited extensively from becoming a part of the British global trading network. Lucrative trade in commodities such as tobacco, cotton, sugar, indigo, tea, coffee, timber, and others substantially increased the economic power of the settlers. With growing economic power, political demands increased. Britain’s global war with France also challenged the security of the British colonies in America. However, the imperial parliament in London led by William Pitt was reluctant to pay for the security of the American colonies. He wanted tax revenue from the colonies to pay for its security. This led to widespread discontent among settlers that finally transpired into an open conflict in the form of the American War of Independence. Following the conclusion of the American War of Independence and British withdrawal in 1783, the building blocks of an independent American nation was formed. A strong central government under the leadership of George Washington was formed. Over time, it expanded both west and southwards gaining territory from France, Spain, and Mexico. The chapter discusses this expansion.

A similar pattern appeared in Australia. Penal colonies in the states of New South Wales and Tasmania and settler colonies in the states of Victoria and South Australia transformed it into a large continent-sized country. Chapter 6 also describes the expansion process in Australia.

Chapter 7 entitled *Expansionism and the Cataclysm of Two World Wars and the Russian Revolution* deals with the two world wars, the Russian Revolution and the interwar period. The collapse of the international system (the concert of Europe) that managed competing European imperial interests ushered in an era of uncertainty and extremely violent imperial conflicts. This had catastrophic consequences for both elites and non-elites in Europe. Chapter 7 is broadly divided into three sub-chapters. The first sub-chapter deals with the period leading up to WW1. This is followed by a detailed description of the Bolshevik Revolution and the formation of the Soviet Union. Finally, the chapter ends with the audit of the history of the Second World War (which is effectively a continuation of the First World War). Key military and political events leading up to the Second World War is analysed. The toxic
ethnonationalist ideology of German exceptionalism as promoted by the National Socialists is examined. Key economic events such as the Great Depression and the role of the financial elites are discussed in this context.

Part III of the book deal with *The Post War Period*. Chapter 8 entitled *Cold War Rivalry in a Bipolar World* covers the history of the Cold War. It starts with the fall of Berlin and subsequent division of Berlin as the genesis of the cold war. It examines the Bretton Woods system, reconstruction of post-war Europe (predominantly Britain, Germany, and France), and the usage of the dollar as the currency for international commerce and maintaining reserves. This chapter examines the economic benefits accruing to the American financial elites under this new system. It also examines to what extent Soviet Union’s refusal to participate in the Bretton Woods financial and economic system transpired into the cold war. The Cuban Missile Crisis, Soviet invasion of Czechoslovakia and Afghanistan, the Vietnam War, the Korean War, Sino-Soviet Split, the Oil Standard, and Sino-American Rapprochement are also analysed.

Chapter 9 entitled *Dissolution of the USSR and Russian Decline in the 1990s* covers the episodes leading up to the dissolution of the Soviet Union. In particular, it analyses the impact of political, economic, and social policies such as Perestroika and Glasnost. This is followed by analysis of the events surrounding the unconstitutional dissolution of the USSR and the rise of Boris Yeltsin as the new leader. The chapter analyses foreign policy of the Yeltsin government in the 1990s along with domestic economic policies of privatisation and liberalisation led by Yegor Gaidar and Anatoly Chubais. Special focus is given to the economic events leading up to the Russian Bond crisis and default in 1998.

Chapter 10 entitled *End of History and Exceptionalism: International System after 1991* focuses on the events after 1991. The withdrawal of the Soviet Union from Eastern Europe created enormous expansion opportunities for the American and Western hegemonic interests. This period oversaw economic and territorial expansion of the European Union. The financial, trade, and military architecture of this expansion is discussed in detail. The role of dollar as the currency that underpins this system is explored. Therefore, the role of monetary policy in conjunction with trade and security policies is discussed. The chapter demonstrates how these policies ran their course over the next three decades as diminishing returns kicked in. Excessive reliance on credit creation as opposed to manufacturing growth brought about volatility and financial crisis of 2000 and 2008.

Offshoring jobs to China and the Asia Pacific and their subsequent impact on the American labour market and income are discussed in this chapter. The cold war origins of this policy (United States—China Détente of 1972) is investigated along with internal political economy factors. The chapter covers the long-term consequences of replacing income with credit to support consumption. In other words, it entertains the thesis how excessive reliance on the monetary policy credit channel leads to asset price bubbles.

On the security side, special attention is given to conflicts in the Middle East (Iraq, Libya, Syria, and Afghanistan) and Yugoslavia leading to foreign and security policy overreach. Attention is given to tensions in the South China Sea and the
Korean Peninsula. Ever-expanding military and security budget, growing national debt, and the stability of the national currency is analysed.

Chapter 11 entitled *The Rise of China, India, and Russia: The Building Blocks of a New International System* analyses the spectacular rise of China as a global economic powerhouse. This narrative is entertained in conjunction with the rise of India and the BRICS\(^2\) as a group. The chapter discusses ramifications of new international institutions such as the New Development Bank (BRICS Bank), Asian Infrastructure Investment and Development Bank (AIIDB), The Shanghai Cooperation Organisation (SCO), and the Eurasian Economic Union (EAEU). Infrastructure initiative such as the China led One Belt One Road (OBOR) initiative and the Russia–India–Iran North-South corridor is discussed. This analysis is undertaken at the backdrop of the Asian Development Bank’s estimate that Asia would need $1.7 trillion infrastructure investments annually to sustain its growth momentum.

Part IV of the book entitled *Going Forward: What to Expect* offers certain predictions. Chapter 12 under the title *Rivalry, Expansionism, and the Future of the International System* revisits the main thesis of the book—capitalism is an expansionist system fraught with risks of violent confrontation. History should guide us to manage these conflicts effectively and draw lessons from them. Barring major armed or nuclear conflicts (flashpoints of such incidents are many), the world will perhaps converge towards multipolarity whereby the economic and political powers of the BRICS nations are likely to increase at the expense of Western Europe and the United States. This process is accelerated by the ongoing public health crisis and the global economic crisis. The international trade and financial systems are likely to change. Whether this transition will take place in a peaceful and orderly manner is an open question. Given the dangers of a nuclear conflict, it is likely that a Thucydides’ Trap\(^3\) would be avoided this time.

Part V and Chap. 13 presents a survey of the literature.

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**Bibliography**

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\(^2\)BRICS is an association of Brazil, Russia, India, China and South Africa.

\(^3\)Thucydides in the ancient Greek text *The History of the Peloponnesian War* wrote, ‘What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta’. He meant a rising power (Athens) will inevitably come into conflict with a dominant power (Sparta) because they have conflicting interests. Following Thucydides’ work, Allison (2017) coined the phrase ‘Thucydides’ Trap’ describing conflicting interests of the United States and China.