Chapter 2
A Unified Theory of Rent, Elite Feud, and Imperial Expansion

Abstract This chapter presents the theoretical framework. The framework addresses two fundamental questions in economic sciences. What factors explain the divergence in living standards across countries and what ensures internal and external stability of the capitalist economic system? The framework adopts a non-technical and unified approach. Using the neoclassical growth model, it shows that economic growth is dependent on access to raw materials, labour, capital, technology, and perhaps most importantly ‘economies of scale’. Then it modifies the neoclassical growth model by introducing power relations (both internal and external to a nation), which ensures scale economies through guaranteed access to markets and raw materials. Thus, imperial expansion is a natural consequence of the capitalist economic system. The stability of the system depends on growth and distribution and it is not possible to have one without the other. However, the quest for growth and imperial expansion implies one empire invariably enters into conflict with another empire. Such inherent tension in the capitalist system can be best managed by acknowledging great power spheres of influence.

2.1 The Unified Framework

In this chapter, I describe the theoretical foundations of this book: how economic factors motivate expansionism, elite rivalry, and conflict which in turn shapes history. We consider a model that demonstrates resources, technology, and power as the three pillars of the capitalist system that evolved over the last 500 years. In particular, the production process is characterised by the following relationship:

\[ Y = F(R, L, K) \]  \hspace{1cm} (2.1)

where the output \( Y \) is produced using a combination of the inputs natural resources \( R \), labour \( L \), and capital \( K \). For tractability, we consider all firms in the economy to be identical. Therefore, the macro output of the economy is the product of the micro output of the representative firm and the number of firms in the entire economy. Note that we do not distinguish between land and natural resources here to keep the
structure parsimonious and tractable. Land could be considered as a natural resource, which hosts factories, farmlands, offices, mines, and oil rigs (in case of subsoil wealth), and forests. The inputs of production (natural resources, labour, and capital) receive compensation through wages or rental payments equal to their contribution to production at the margin.\(^1\) The compensation schemes could be different between the market and planned variants of capitalism. We will elaborate later in the chapter that the production process is similar across the two systems with the main difference emerging out of redistribution.

Technology and power\(^2\) relations across inputs determine the most suitable combination of inputs. To illustrate the role of technology, let us consider the following Cobb-Douglas production function \(Y = R^\alpha L^\beta K^{1/C_0} - \alpha - \beta.\) If all inputs are increased by a fraction \(\theta\) then the output also increases by a fraction \(\theta.\) Hence, the production function exhibits constant returns to scale technology. For the sake of minimising complexity, we consider the combination of inputs used here as knowledge or production technology. Alternatively, one could define the production function as \(Y = AR^\alpha L^\beta K^{1/C_0} - \alpha - \beta,\) where \(A\) represents technology. In that event, \(A = 1\) would represent constant returns to scale technology while \(A > 1\) would represent increasing returns to scale technology.

Power relations between the different owners of inputs (or factors of production) are enforced through rules such as factory discipline, law and order etc. In the power hierarchy, the state typically enjoys ‘monopoly of violence’. It can also exert ‘threat of violence’. Thus, it acts as the main enforcer of power relations. The production process converts inputs into outputs for mass consumption. Even though technology plays a critical role in the production process, power relations also matter at the margin. For instance, given a certain level of technology, inputs can gain at each other’s expense if the existing set of rules or institutions are biased in their favour thereby assigning more power. The owner of capital can extract payment greater than their marginal product using the power hierarchy while depressing wages of workers using violent repression.\(^3\) As technology is upgraded, the combination of inputs required for production changes thus altering power relations over time. Moreover, with technology upgrade the need for skilled labour increases relative to unskilled or low skilled labour thereby introducing hierarchy within labour.

Under this system of production, within country inequality and poverty stems from the relative payments received by the inputs of production, skills, and power relations. Power relations act both at the micro and macro levels and can be either progressive or regressive. For instance, if a particular technology is biased in favour of skills and capital then a progressive power relations system practiced either by the

\(^1\)A system run by slave labour (such as the plantation economy) relies entirely on coercion and thus workers are not compensated.

\(^2\)Power can be both economic and political. In fact, one can lead to the other. See Bhattacharyya (2011a) for more discussion.

\(^3\)Production systems based on slave labour (i.e. plantation economies) and colonial institutions demonstrate such characteristics.
state or an enterprise can correct for the resultant inequality through redistribution or reskilling of workers. In contrast, a regressive power relations system if practiced can perpetuate inequality and cause extreme poverty. Plantation economies in the Americas and other former colonies in Africa and Asia are good examples of such systems. Similarly, across country inequality and poverty could stem from skill and technology gap, and a political system perpetuating regressive power relations.

As described above, a fraction of the output produced in a capitalist economy using the production function (2.1) is used for factor payments. A fraction of the output is also used for investments, consumption, government expenditure, maintenance of the existing stock of machines (or capital), and endow children of the owners of capital with capital. Government expenditure includes spending on military, police, law enforcement, public sector employees, and welfare. At least in theory, under perfectly competitive market structure there will be free entry and exit of firms. Therefore, there will be no surplus value (or rent) generated by the firms. In practice, all market economies exhibit oligarchic or monopolistically competitive market structure. For interested readers, I would refer to the literature on Schumpeterian growth. This literature demonstrates the prevalence of non-competitive market structures in market economies. Under conditions of oligarchy or monopolistic competition with at best partial free entry, all firms and by extension the entire economy generates positive rent. In socialist economies, the entire rent is appropriated by the state. A part of it is redistributed to the population and a part of it is saved in the form of precious metals or other liquid or illiquid financial assets. The per capita redistributed rent for the elite is greater than the same for the non-elite population. For a complete account of growth and distribution in socialist economies, see Kalecki (1990, 1992, 1993). We discuss more on this in Chaps. 8 and 9. In contrast, in market economies, the state uses tax as the main instrument to appropriate a proportion of the surplus or rent from the private actors (mainly owners of capital). Labour can also generate a surplus in the form of savings but this is small relative to the surplus generated by firms. Therefore, market-oriented states typically do not tax small savings.

The economy illustrated above attains steady state when per capita capital stock and per capita output stops growing over time. Note that we are assuming exogenous population growth at a constant rate. The steady-state level of per capita capital stock and output is dependent on the factors of production including natural resources and capital. Long-run growth in per capita income is possible with steady technological progress, which continually shifts the production frontier given production inputs (or factors of production). An increase in the access to natural resources or capital also increases the steady-state level of income and the economy shifts from a lower level steady state to a higher level steady state. This expansionary shift is described

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4This is identical to the resource constraint equation in an optimal growth model (commonly known as the Ramsey Model) with a moderate twist. The optimal growth model assumes all new born babies are assigned with capital, whereas here we assume that only the children of capitalists are endowed with capital.
as the ‘transitional dynamics’. Note that the steady-state result appears due to the theoretical assumptions of constant returns to scale (CRS) and diminishing returns to the factors of production. It is also possible for economies to make efficiency gains by using the inputs better if they are not producing on the production possibility frontier.

Let us now examine the factors that can trigger expansion in the abovementioned model. Under the strict contours of the model, an expansion in the resource base $R$ leads the economy to a higher steady state. Therefore, access to new natural resources is expansionary. The effect of the expansion of the labour force on the economy is manyfold. A larger labour force would imply a greater share of the output is used to equip more new workers with capital. This would leave less output for the purpose of investments, which would be contractionary. However, a larger labour force can also reduce cost of production and increase rent for the firms if the institutional structures allow them to discriminate across different groups of the labour force. This can effectively create a constant pool of surplus labour for the owners of capital. Overall, it is expected that the latter effect would dominate over the former and therefore would be expansionary.

The model illustrated above is a supply-side model, as it does not deal explicitly with the demand side. It implicitly assumes that in the long run, supply creates its own demand. Expansion of the size of market would present a positive demand shock to the economy and therefore undoubtedly would be expansionary. It would provide new incentives for firms and the economy to expand output supply. Access to a bigger market would open up additional opportunities for firms to exploit scale economies and maximise rent.

Finally, exogenous technological progress in the form of $A$ as noted above would also be expansionary. The dynamic here is identical to a textbook Solow model. Even if we introduce the flexibility of endogenous technological progress as in Schumpeterian growth models, the effect of a positive technology shock is always expansionary.

The model as described above does not take into account the distributional consequences of economic expansion. It implicitly assumes that there are no distributional consequences as all the factors of production receive payments equal to their marginal product. In reality, factor markets in a capitalist system are segmented not just by skill levels but also by social status. Therefore, economic expansion as illustrated above inevitably delivers skewed distributional outcome, which unleashes antagonistic political forces. The balance of power between these antagonistic political forces constitutes the political equilibrium or steady state, which is not explicitly discussed in the model so far. For example, a somewhat simplistic description of the political economy equilibrium would be that the production process is capital and skill intensive and therefore the distributional outcome inevitably favours the owners of capital and skills relative to the owners of other factors of production, especially unskilled or semi-skilled labour. In reality, the political economy dynamics is far more complex which I aim to describe next.

The above model is capable of delivering a stable steady state without the need for continual expansion. Therefore, a valid question would be why the system needs...
to be expansionary. The answer stems from the stability of the political equilibrium that emerges from the distributional consequences of the economic steady-state equilibrium. The political equilibrium shapes the rules of the economic equilibrium. Therefore, political instability leads to economic instability. The political equilibrium remains stable as long as the majority population perceives the distributional outcome fair. Overall, the majority care about their absolute income as opposed to their relative income. Therefore, the majority are willing to tolerate inequality as long as their absolute income is going up over time. In other words, the unskilled and semi-skilled labour force would perceive the distributional outcome fair as long as their absolute income is increasing over time but albeit at a slower pace relative to the owners of capital and skills. The only way to deliver such an outcome is through continual expansion or economic growth. If this is not the case then the legitimacy of political equilibrium is called into question. Questionable legitimacy destabilises the political equilibrium and in turn the economic equilibrium or the steady state.

Furthermore, expansion generates economic rent and the incumbent elite protects their rent by creating entry barriers for new entrants often by using brute force. We will describe the role of brute force later in the book. In the event of a growth slowdown, the sharp distributional contradictions inherent to the system are unleashed and consequently, the system enters a phase of crisis and stress. A politico-economic system in crisis and stress gives rise to elite competition, rivalry, and feuds. In turn, the incumbent elites also use feuds and military conflict as tools to achieve expansion of their resource base in order to sustain growth and maintain stability. In what follows, I argue that this dynamic of expansion, crisis, feuds, and further expansion is the toolbox that could be used to explain the history of global capitalism. I elaborate on the mechanism described above a bit further in the following paragraphs.

In order to describe the political economy dynamics, let us stratify the society into elites and non-elites. Elites are a minority. However, they exert substantial influence on the political equilibrium and shape the rules that govern economic and political life. Elites are typically the owners of natural resources and capital. The non-elites could be divided into broadly two groups—skill endowed and unskilled. The skilled endowed non-elites are typically upwardly mobile. Since returns to skills are substantial, therefore they are presented with the opportunity to save, invest, and own capital. Examples of such groups of non-elites are the merchants in the early modern era with their entrepreneurial and military skills and the urban university-educated middle class in the contemporary world with their engineering or information technology skills.

Let us also impose a taxonomy of elites. Elites can be classified as three types—national security elite, financial and corporate elite, and media elite. All of these elites have vested interest in expansion which I will call imperial expansion. As I will demonstrate later in the book that expansion beyond a point becomes well outside the territorial and cultural boundaries of the core and hence imperial in nature. As the empire expands, the size of the rent that these elite groups could extract also expands. The empire could expand directly by setting up colonies and absorbing more and more territory through military conflicts. It could also expand through
proxies and via controlling the economic and political means of others. The former is observed leading up to the Second World War whereas the latter is a method of choice for imperial expansion in post-colonial societies after the Second World War.

Large corporations set up production within strategically important sectors. They provide the benefit of scale economies, monopoly power, and rent maximisation to the sections of elite who own natural resources and capital. Rent is extracted via restricting entry and increasing the size of the market through imperial expansion. Note that both of these shocks would result in a positive shift in the economic steady state. This takes place irrespective of ideologies and political preferences of the elite. For example, both liberal and socialist philosophies are internationalist in nature as they both rely on the capitalist mode of production. Again, it is important to emphasize that the motivation behind expansion here is twofold. First, the profit and power motives of the incumbent elite. Expansion increases the size of the rent and hence increases the economic and political power of the incumbent elite. We assume that political power is derived from economic power. Greater political power allows the incumbent elite to tilt the rules in their favour that in turn ensures favourable distributional outcome and greater rent in the subsequent periods. Second, the stability of the entire system. Expansion creates enough surplus for redistribution. Redistribution in turn helps the incumbent elite to dampen sharp contradictions within the society emerging from the skewed distributional outcome of the capitalist system.

Therefore, globalisation of the mode of production and imperial expansion is central to the capitalist system and its survival. Globalisation of the mode of production implies creating a global network of raw materials, labour, production, and markets to sell goods and services. Militarism is an integral part of this system, as one would need muscle power to secure the networks. Competing empires would like to expand and secure their respective global networks. Given that resources and markets are finite, confrontation, or what I call ‘elite feuds’ emerge as an inevitable consequence of such imperial rivalry. It is of course in the mutual interest of these competing empires to manage such conflict. Management can take place through a global security architecture or global institutions. Alternatively, it can also take place through some form of unwritten rules, bilateral or multilateral treaties, and sheer luck. However, all of these mechanisms are subject to commitment problems. In other words, there is no effective enforcement mechanism at the global level. If one empire perceives itself to be too strong or too weak they might deem the perceived cost of a direct violent confrontation to be acceptable and thereby violate the existing agreements. We will return to this discussion again later.

The national security elite within the society looks after security and defence of the production and raw materials networks. Therefore, they look after the industries related to national defence. It is relatively more nationalistic to start with as the defence industries typically have a home bias. This however changes over time and with the size of the empire. Larger empires also internationalise their defence production networks in order to reduce costs and exploit economies of scale. Therefore, they tend to become more internationalist over time.
The financial elite derives their wealth and power from controlling the supply of money. Money is the mode of transaction in capitalist societies. As I have described earlier, large corporations and skilled non-elites generate surplus from exploiting economies of scale or partaking in skill-intensive production. Generating these surpluses and day-to-day economic exchanges involve potentially infinite number of transactions. To reduce transaction costs requires a mode of transaction and hence the role of money. The surpluses also need to be saved for the purpose of investments or future consumption. Therefore, they need a store of value. Money and other forms of liquid and illiquid assets act as a store of value (or instruments of saving). The conversion of savings into investments, the management of assets, and pooling of risk associated with saving and investing require intermediation. Financial institutions provide this service of intermediation and the financial elite controls these institutions.

The power of the financial elite evolves over time. As the size of the empire grows, so is the power of the financial elite. Outward orientation is natural to the financial elite as it collectively increases their power and wealth. In particular, when the size of the imperial state is relatively small, the financial elite derives their wealth from issuing currency on behalf of the state and buying state securities and debt. The imperial state pays interest to the financial elite in return for holding their debt. The currency issuance (or the IOUs) by the financial elite is typically backed by precious metals such as gold and silver. The stock of the precious metal dictates how much currency the financial elites can issue and therefore acts as a constraint from the supply side. In addition, the total volume of economic activity acts as a constraint from the demand side. For example, if there is an economic expansion (or output growth) then it is expected that the number of transactions in the economy would grow thereby increasing demand for money. The supply of money (or currency in circulation) would need to be increased accordingly. If there is imbalance in the form of excess supply of money then it would trigger inflation. In contrast, if there is excess demand for money (or not enough currency in circulation) then that would trigger a collapse in bond prices and an increase in interest rate. Bond prices would fall as wealthy citizens would try to sell bonds and other financial assets in order to satisfy their demand for liquidity. Borrowers and bond issuers such as the imperial state would have to pay more to borrow thereby increasing bond yield. Subsequently, economic contraction would ensue.

As the empire expands, so is its access to raw materials and markets. Large corporations typically lead this process on behalf of the empire. Under a globalised system of trade and commerce, at least within the imperial boundary, expanding commerce demands expansion in the financial system as well. This implies expansion in currency issuance by the financial elite. The colonies are encouraged (or forced) to use the imperial currency as their mode of transaction. At the very best, the colonies set up currency boards by pegging their local currency to the currency of the imperial core thereby giving up their monetary policy independence.

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5Note that I am using the phrases ‘financial elite’ and ‘financial intermediary’ interchangeably here.
Colonial governments are also forced to hold sovereign debt of the imperial core. This creates additional demand for the imperial currency in terms of both transactions and assets outside of the imperial core.

Furthermore, an expanding empire brings in new security challenges in terms of protecting trade routes. Maintaining military presence in strategically important locations gain increasing importance. A network of overseas military bases become essential for the management of the empire. Needless to say that this imposes a significant burden on the imperial state budget. Therefore, imperial states have to engage in deficit financing to satisfy the financing needs. In other words, the budgetary challenges are addressed intertemporally by imperial states through borrowing from the future. Imperial states issue bonds which are then bought, sold, and managed by the financial elite. This also creates a symbiotic relationship between the financial and national security elites. The national security elites do not mind military conflicts as long as it is below their threshold level of cost in terms of personnel and equipment loss. Personnel loss acts as a constraint in any armed conflict for the national security elite.

All of the above taken together contributes to the wealth and power of the financial elite. Note that the sole instrument to power for the financial elite is currency issuance. The constraints on currency issuance are primarily twofold. First constraint is the transactions demand for currency. Imperial expansion is an obvious response to increase transaction demand. Second constraint is the reserve requirement. Having precious metals of equal value (or a fraction of the value) in reserve against currency issuance is the key to the stability of any fractional reserve financial system. This allows the financial elite to hedge against the risk of herd behaviour and bank runs. Obviously, the financial elite also strives to minimise this constraint but there is a trade-off. Strengthening regulatory environment, property rights, contracting institutions could encourage peripheral players to invest in imperial core currency denominated assets. This could increase transaction demand. Furthermore, the currency could be used in the international trade of strategic commodities such as energy. Money supply could be increased accordingly without expanding the reserve requirements (i.e. the need to hold precious metals). However, there is always a limit to this expansion as it depends on third parties choosing to use the imperial currency. Military threats could be used to compel third parties into trading using the imperial currency but there is a cost in terms of personnel and other losses. In the end, controlling human behaviour and currency preferences is not costless.

The three elite groups within the political system wield enormous political and economic power. This is irrespective of the political system that is in place. Political systems (democracy, theocracy, autocracy etc.) are largely instruments of legitimacy of the elite rule. They help address the political succession problems inherent in any political system. Democracies choose their elite from a wider pool using plebiscites, theocracies use religious and moral authority, whereas autocracies rely on heredity
or the selectorate. Note that political systems 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. Sometimes moral arguments are used to justify violent expansionism but they are never credible when judged through the lens of imperial interest.

Relationship between the imperial elite (elite in the core) and the colonial elite (elite in the periphery) is also very important. The core imperial elite tolerates some degree of autonomy of the peripheral elite depending on the level of trust between them. The core–periphery relationship appears to be heterogeneous. Trust plays a very important role along with the distribution of rent and patronage. The role of the peripheral elite is primarily to collect rent on behalf of the core. It facilitates extraction of raw materials, manages physical and human resources, and maintains military presence in the event of any security threat. It also maintains local infrastructure facilitating primarily resource extraction and other economic activities.

An example of the heterogeneous nature of core–periphery trust, we could look at colonies populated by European settlers as opposed to non-settler colonies. European imperial elite trusts 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 facilitates growth thereby increasing rent. This, in turn, supports expansionism and thereby makes the system durable. It also aids legitimacy of the elite rule if it improves average living standards. However, the spasmodic nature of technological progress makes expansion through this channel uncertain. Typically, diminishing returns to the factors of production given a certain level of technology sets in. This triggers elite competition and feuds over the existing resources.

When is the elite likely to 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 critical

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6Selectorates are a small group of very influential individuals.
7For two contrasting examples from British involvement in India and America, see footnote 1.
instrument for the elite in order to manufacture consent and seek legitimacy. Note that the incumbent elite cannot rule the masses without legitimacy. Therefore, in any political system, the incumbent elite would require a critical minimum support from the masses in order to be legitimate. The media elite colludes with the incumbent in order to manufacture consent and seek legitimacy on behalf of the incumbent. In return, the media elite receives a share of the rent. Note that, the media elite faces competition in the information space. Therefore, the appearance of neutrality is important for the colluding media elite in order to remain a credible source of information. Hence, they devote significant resources to appear impartial while defending the legitimacy and imperial interests of the incumbent elite at both home (imperial core) and abroad (periphery). In addition to the information control, the imperial core also uses international assistance and non-governmental assistance to buy influence and promote hegemonic interest in the periphery. We have not discussed the media arm of the elite in detail thus far. This is more modern than all the other elites. We will talk more about it in due course.

Politicians/leaders in the imperial core do not act independently. They are only one component of the elite and is often chosen by the underlying powerful group and then legitimised by a popular vote or other forms of institutions. Their actions nonetheless are often heavily constrained by the national security and the economic/financial (large corporations) elites.

This system of social contract works fine as long as there is economic expansion and tolerable inequality. In other words, 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 increases, and growth becomes skewed (i.e. only the very top benefits from growth). This inevitably leads to expansionist pressures with the aim of expanding access to resources (material and human) and markets. This lies at the heart of elite feuds, wars, and violent conflicts.

In what follows, I present a rapid-fire illustration of the theory in action to explain the economic histories of the global North and South. I will of course enter into much more detailed discussion in Parts II and III of the book.

2.2 Theory in Action: The Capitalist System, Imperialism, and the North-South Divide

The global North and especially Britain was one of the early movers towards an energy and technology-intensive production process commonly known as the industrial revolution. Many other countries had the initial conditions to undergo such transition in the production process but Britain was the first among equals. In Bhattacharyya (2016), I discuss the process and geographic preconditions that led to the industrial revolution therefore will not repeat it here. However, the key point to note is the desire to expand output. Expansion can take place via new technology, access to abundant raw materials (including energy), and access to new markets. All
of this taken together offers economies of scale, which further reduces the unit cost of production and facilitates expansion. The desire to expand not only stems from greed and scale economies but also from maintaining legitimacy of the ruling elite. Without growth in output, the redistributive demands by the disadvantaged input (labour) could increase making it increasingly expensive for the owners of the winning inputs (capital and skills) to preserve the prevailing power relations. We can call the owners of the winning inputs the elite who typically gets to set the rules both at the micro and macro levels.

In the global North, the Spanish and the Portuguese were the first to embark on this expansion drive once they organized themselves as imperial nation-states. Under an early modern pre-industrial production relation, nation-states offered the desired optimal scale economies and therefore we notice the mass extinction of feudal states in Western Europe. In Bhattacharyya (2011a, 2016), I discuss what transpired such transition and to what extent geography contributed to it. The Iberians had ocean navigable ships but did not have the gift of steam power. Britain managed to make that significant technological leap first. Moreover, even prior to the technological leap England shattered the expansion prospects of the Spanish in the North Atlantic by defeating their Armada.

The industrial revolution put Britain in a dominant position as an industrial power. The initial access to abundant coal in England and Wales facilitated the transition towards a coal-fired energy-intensive and steam-dependent production process. Military success contributed towards access to new markets and new resources, which offered scale. In case of Britain, the initial expansion occurred in North America and the Indian sub-continent. The energy-intensive production process and technology gradually diffused to other parts of continental Europe. What followed is intense competition for market access and natural resources between different European imperial states. A complicated system of alliances, betrayals, and treaties between European empires signify this epoch with the French, and the Dutch and the British dominating the global map of trade and commerce at different points in time. This intense competition gave rise to three major conflicts—the Napoleonic wars, World War I and World War II. Following World War II the European colonial world order collapsed.

The global South during this time was colonised. It collectively did not manage to make the transition towards an energy-intensive steam-based production system and as a result lagged behind. Some societies in the South did have the initial conditions to make such a transition but failed to do so in time (Bhattacharyya 2011b). Moreover, the South systematically succumbed to the military and technological prowess of the North losing key battles and conflicts and thereby giving way in terms of access to markets, raw materials, and strategic control over logistics. As a result, the elite in global South and its population ceded control of the production process and power relations within their society. Power relation was dominated by the colonizers who could set the rules regarding access to raw materials, technology, capital, and distribution. This triggered deindustrialization and deskillling of the local population, which perpetuated inequality and extreme poverty.
After the Second World War, many of these former colonies became independent and embarked on nation-building. Nation-building during this epoch was driven by self-reliance in order to protect the hard-earned sovereignty and independence. This strategy led to some improvements in the living standards of the masses but largely failed to deliver on the promise of growth and mass eradication of poverty. The strategy was over reliant on the internal market, which hardly offered economies of scale. As a result, it failed to deliver the growth and distribution needed to transform these societies.

Following the conclusion of the Cold War in 1991 new opportunities emerged for the global South from a reinvigorated model of globalization. Globalization and international trade offered the scale economies and access to technology required to generate growth and reduce poverty. Sovereign, independent and accountable governments in the South also helped in improving power relations, which helped reducing poverty. Southeast Asia, China, and India are useful examples of such success stories. Therefore, one could argue that the lessons from history going forward is that the most effective poverty reduction strategy is to engage in international trade and commerce in a competitive global economy where the rules of engagement are fair and respect the sovereignty of every nation-state.

The theoretical framework introduced above is directly related to a large literature on long-run economic growth and development. I have discussed them elsewhere (see Bhattacharyya 2011a) and in various journal publications. Therefore, I will not include them here. However, Chap. 13 offers a fairly comprehensive review of this literature for interested readers.

The framework is partially related to the politics, sociology, and international relations literature. Wallerstein (1983) describes capitalism as a historical social system with an imperial core and colonial periphery. Political scientists Hardt and Negri (2000) describe the transition from a nation-state imperialism to a postmodern empire. Brewer (1991) and Meiksins Wood (2003) offer theoretical explanations of imperialism. In particular, how the political power of capital evolves with capitalism. Another related literature is the work that followed Carr (1937) and Morgenthau (1948) commonly referred to as the realist traditions of international relations theory. Note that, the primary subject matter of this book is the economic history of capitalism. Therefore, any relationship to the social and political theories are at best partial and somewhat remote. Furthermore, to the best of my knowledge, none of these studies in sociology and politics discuss the role of economies of scale in economic expansion and empire, a key subject matter here. The contributions in sociology and politics also do not offer a holistic and long view of economic and political history as is offered here.

A more relevant framework however is North et al.’s (2009) ‘natural state’ thesis. The key idea is the following. Elites within a state are able to form coalitions. They do so in order to restrict entry and protect their rent from potential challengers. However, the forces of free market, trade, economic growth, and liberal democracy challenge these restrictions. The forces unleashed by the process of economic growth and liberal democracy challenge incumbent elite power in illiberal polities and therefore the elites suppress economic growth and democratization in order to
hold on to power. In contrast, states that are able to transition towards free market and liberal democracy are competitive, durable, and prosperous.

North et al.’s (2009) ‘natural state’ thesis explain the development process of countries in the North Atlantic. In particular, it explains Anglo-American engagement in Atlantic trade and subsequent economic and political changes. However, it ignores the role of the Atlantic slave trade, colonialism, and institutionalised racial discrimination in shaping the economic fortunes of the Atlantic economies (Williams 1944; Findlay 1990; Inikori 2002). More importantly, the ‘natural state’ thesis fails to explain the decline in economic and political powers of post-imperial societies possessing the twin institutions of free market and liberal democracy.

The relative decline of British economic and political power post-Second World War is a case in point. Furthermore, the relative decline of the continental European economies of the Atlantic Alliance since 2008 Global Financial Crisis also cannot be explained by the ‘natural state’ thesis. This trend is only likely to accelerate in a post-COVID-19 pandemic world.

North et al.’s (2009) ‘natural state’ thesis does not explain institutional capture in Western liberal democracies. The thesis assumes that the twin institutions of free market and liberal democracy is sufficient to guarantee perpetual economic expansion and fair distributive outcome. Yet lobbying and institutional capture erode institutional capacity in free market liberal democracies delivering weak growth and skewed distributive outcome. Rising income and wealth inequality in the United States since 2008 is a case in point (Saez and Zucman 2019). Indeed, a fraction of it could be explained by technological progress. Nevertheless, institutional capture and tax evasion by the elite remains a potent factor.

The ‘natural state’ thesis also fails to explain the rise of China, a country that did not embrace Anglo-American liberal political institutions. China’s expansion strategy is not dissimilar to the European Imperial powers of the eighteenth and nineteenth centuries. The European monarchies created monopolies using the institutional mechanism of the Royal Charter granting the bourgeoisie monopoly rights over trade in certain commodities. Several East India Companies emerged out of this process. The intention was to exploit scale economies and eliminate competition. Similarly, modern China’s expansion strategy relies on trade, foreign direct investment, and state monopoly in strategic sectors. Trade increases the size of the market thereby offering scale economy. Foreign direct investment works symbiotically with the state monopolies offering scale. Privately owned small and medium-size businesses evolve as part of the supply chain of the monopolies.

In contrast, my theoretical framework as described above is able to adequately explain the relative decline of British and continental European economic and political power. The loss of empire limits accesses to markets, raw materials, and human resources. At the very least, it makes the inputs of production relatively more expensive thereby reducing economic rent. Loss of markets also limits the ability to

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8For an alternative view on the effect of Atlantic slave trade on British industrial revolution, see Harley (2013).
exploit economies of scale and therefore reduces rent. What ensues is a decline in economic and political power.

My framework is also able to explain institutional capture within the Atlantic Alliance and the rise of China and the BRICS. I revisit these issues in Chaps. 3, 5, 8, 11, and 12 of the book.

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