

WAR IS POLITICS:

OFFENSIVE REALISM, DOMESTIC POLITICS, AND SECURITY STRATEGIES

STEVEN E. LOBELL

NIALL FERGUSON writes that Britain's greatest foreign policy failure in the decade prior to the Great War was that while London "identified a serious German threat to the continental status quo," Britain "made no serious attempt to prepare to check that threat by the only viable means: the creation of a comparably large land army."¹ Most national actors and interest groups understood the security challenge posed by Germany (bully or conquer France and overrun the Low Countries) and Britain's shortcomings in terms of its military and industrial preparedness for war (as demonstrated earlier by the Boer War).² Yet, before 1914, the accompanying domestic redistributive consequence from the necessary financial, economic, military, and industrial policies made a large standing army politically impossible.

According to offensive realism, security in the international system is scarce.³ Driven by the anarchical nature of the international system, such theorists contend that states seek to maximize their security through maximizing their rela-

Steven E. Lobell is an associate professor in the Department of Political Science at the University of Northern Iowa.

I would like to thank Karen Ruth Adams, Ken Basom, David Bearce, Benjamin Frankel, Sean Lynn-Jones, Randall Newnham, Tom Rice, Stephen Saideman, Arthur Stein, Jeffrey Taliaferro, and two anonymous *Security Studies* reviewers for their helpful comments. The Graduate College at the University of Northern Iowa provided research assistance. A version of this paper was presented at the 2002 International Studies Association Annual Convention.

1. Niall Ferguson, *The Cash Nexus: Money and Power in the Modern World, 1700–2000* (New York: Basic Books, 2001), 410–11.

2. Clive Trebilcock, "War and the Failure of Industrial Mobilisation: 1899 and 1914," in *War and Economic Development*, ed. J. M. Winter (Cambridge: Cambridge University Press, 1975), 139–64; Zara S. Steiner, *Britain and the Origins of the First World War* (New York: St. Martin's Press, 1977).

3. Eric J. Labs, "Beyond Victory: Offensive Realism and the Expansion of War Aims," *Security Studies* 6, no. 4 (summer 1997): 1–49; Fareed Zakaria, *From Wealth to Power: The Unusual Origins of America's World Role* (Princeton: Princeton University Press, 1998); John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: Norton, 2001).

tive power by expansionist foreign policies, taking advantage of opportunities to gain more power, and weakening potential challengers. The state's ultimate goal is hegemony or primacy. How a state will go about expansion will vary from nation to nation (due to geography, military tradition, etc.)—offensive realism does not predict the same security strategy for every state.

Ignored by offensive realism is that war is politics (or Laswell's classic question of "who gets what, when, and how?"). By black boxing the state, offensive realism's narrow focus disregards how a state's external security strategy is driven by internal political competition. Within liberal states, broad and log-rolled coalitions of domestic actors and interest groups will compete to advance their preferred security strategy and to capture the associated distributional spoils.⁴ Supporters and opponents know that how the state prepares for war (i.e., how it goes about extracting societal resources and mobilizing wealth) and how it executes the war beyond its own borders will create internal winners and losers. In short, the nation's war related financial, economic, industrial, and military policies will empower or weaken groups from government, industry, finance, and labor.⁵ Supporters and opponents also recognize that any changes in these policies can have domestic distributional consequences. By capturing the gains and avoiding the losses, the empowered coalition will lobby the government for a security strategy that will further ratchet up their bloc's strength (while the losing coalition will be weakened economically and politically). As Helen Milner notes, these "domestic consequences are the 'stuff' of politics."⁶ One real danger is that a faction might advance a security strategy that will fa-

4. On coalitional politics, see Stephen Haggard and Robert Kaufman, "The Politics of Stabilization and Structural Adjustment," in *Developing Country Debt and Economic Performance*, ed. Jeffrey Sachs (Chicago: University of Chicago Press, 1989), 209–54; Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton: Princeton University Press, 1989); Robert O. Keohane and Helen V. Milner, eds., *Internationalization and Domestic Politics* (New York: Cambridge University Press, 1996); Fred H. Lawson, *Why Syria Goes to War: Thirty Years of Confrontation* (Ithaca: Cornell University Press, 1996); Helen V. Milner, *Interests, Institutions, and Information: Domestic Politics and International Relations* (Princeton: Princeton University Press, 1997); Benjamin O. Fordham, *Building the Cold War Consensus: The Political Economy of U.S. National Security Policy, 1949–51* (Ann Arbor: University of Michigan Press, 1998); Etel Solingen, *Regional Orders at Century's Dawn: Global and Domestic Influences on Grand Strategy* (Princeton: Princeton University Press, 1998); Peter Trubowitz, *Defining the National Interest: Conflict and Change in American Foreign Policy* (Chicago: University of Chicago Press, 1998); and Steven E. Lobell, "Second Image Reversed Politics: Britain's Choice of Freer Trade or Imperial Preferences, 1903–1906, 1917–1923, 1930–1932," *International Studies Quarterly* 43, no. 4 (December 1999): 671–94. The literature on structural adjustment also highlights the domestic distributional competition over liberalization.

5. On the relationship between domestic choices and war, see Alan C. Lamborn, *The Price of Power: Risk and Foreign Policy in Britain, France and Germany* (Boston: Unwin Hyman, 1991); Bruce Bueno de Mesquita and David Lalman, *War and Reason: Domestic and International Imperatives* (New Haven: Yale University Press, 1992); and Alan C. Stam III, *Win, Lose, or Draw: Domestic Politics and the Crucible of War* (Ann Arbor: The University of Michigan Press, 1996).

6. Milner, *Interests, Institutions, and Information*, 16.

vor their coalitional interest, but will harm the national interest.⁷ A coalition might also resist a security strategy because it will harm their faction's interests, even if it is in the nation's interests.

This article examines two competing explanations for Britain's decision to adopt a Limited Liability security strategy in the decade prior to the Great War. Limited Liability entailed a blockade of German ports, deployment of the British Expeditionary Force, and financial and industrial paymaster to the Allies, requiring marginal economic, industrial, and manpower mobilization. Offensive realism suggests that Britain adopted a Limited Liability strategy to increase its relative power against all of the major contenders for continental hegemony. By keeping its manpower and resources in reserve, while France, Russia, Germany, and Austria weakened each other, Britain would emerge from the Great War as the strongest state. As the undisputed master, Britain would dictate the peace terms to its allies and enemies alike in the post war negotiations. Alternatively, driven by domestic distributional concerns, an entrenched free trade coalition pushed for a Limited Liability strategy. They were concerned that a more offensive security strategy (known as the Continental Commitment) would roll-back their prewar political and economic gains while ratcheting up the opposing economic nationalist bloc who would push for a big army and navy, national conscription, state intervention in the economy, and trade and industrial protection. Free trade supporters lobbied for a Limited Liability security strategy even though it was insufficient to defeat Germany.

SECURITY STRATEGIES

A STATE'S SECURITY STRATEGY is a package of war preparation and war-related financial, economic, military, and industry policies. A security strategy involves how a state configures its military forces (the extraction of manpower and resources) and how it creates military power (the mobilization of resources) for the conduct of war.⁸ A state's security strategy is narrower than grand strategy, which includes military doctrine, war aims, resource extrac-

7. Aaron L. Friedberg, *The Weary Titan: Britain and the Experience of Relative Decline 1895–1905* (Princeton: Princeton University Press, 1988); Jack L. Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca: Cornell University Press, 1991); Richard Rosecrance and Arthur A. Stein, *The Domestic Bases of Grand Strategy* (Ithaca: Cornell University Press, 1993); and Charles A. Kupchan, *The Vulnerability of Empire* (Ithaca: Cornell University Press, 1994).

8. Aaron L. Friedberg, *In the Shadow of the Garrison State: America's Anti-Statism and its Cold War Grand Strategy* (Princeton: Princeton University Press, 2000), 62–66. Also see Michael Mastanduno, David A. Lake, and G. John Ikenberry, "Toward a Realist Theory of State Action," *International Studies Quarterly* 33, no. 4 (December 1989): 462–64.

tion, and diplomatic activity.⁹ Yet, it is broader than military doctrine, which deals with how a state uses its military forces in war; the role and mission of armed forces, force organization, and weapons systems.¹⁰ One of the issues at hand is how a state will balance the military component of its security strategy in relation to the financial-economic-industrial capacity element of its security strategy.¹¹ Will the state always maximize its military security, even if doing so will harm its productive capacity? Will the state attempt to enhance its productive capacity, even if doing so reduces its military security?

A state's security strategy can range from defensive oriented to offensive oriented. A defensive security strategy involves fiscal and monetary restraint, enhancing security through low cost defense arrangements (membership in intergovernmental organizations and nongovernmental organizations, collective security arrangements, and participation in international arms limitation and arms reduction agreements), and reliance on volunteerism, and market mechanisms (to prevent wasteful expenditure and inflation). One danger is that a defensive security strategy will limit the amount of military power the country can generate immediately. Yet, such a state will have large manpower, economic, and industrial reserves which it can mobilize for war if it has the proper infrastructure, administrative apparatus, and spare military capacity.

An offensive security strategy entails societal resource extraction and mobilization for higher defense expenditure, national military and industrial conscription, and a total-war economy to fully mobilize the state's resources through state intervention and wartime controls over all aspects of industry, the economy, and manpower allocation. By doing so, the state will maximize the amount of military power the country can generate. This strategy risks eroding the state's productive capacity for long-term military security.

9. Barry R. Posen, *The Sources of Military Doctrine: France, Britain, and Germany between the World Wars* (Ithaca: Cornell University Press, 1984), 6; Stephen M. Walt, "The Case for Finite Containment: Analyzing U.S. Grand Strategy," *International Security* 14, No. 1 (summer 1989): 6; and Paul M. Kennedy, ed. "Grand Strategy in War and Peace: Toward a Broader Definition," in *Grand Strategies in War and Peace* (New Haven: Yale University Press, 1991), 1–7. On the relationship between grand strategy and domestic politics, see Rosecrance and Stein, *The Domestic Bases*; Paul A. Papayoanou, *Power Ties: Economic Interdependence, Balancing, and War* (Ann Arbor: University of Michigan Press, 1999); Lars S. Skålnes, *Politics, Markets, and Grand Strategy: Foreign Economic Policies as Strategic Instruments* (Ann Arbor: The University of Michigan Press, 2000); and Steven E. Lobell, *The Challenge of Hegemony: Grand Strategy, Trade, and Domestic Politics* (Ann Arbor: University of Michigan Press, 2003).

10. Dan Reiter and Curtis Meek, "Determinants of Military Strategy, 1903–1994: A Quantitative Empirical Test," *International Studies Quarterly* 43, no. 2 (June 1999): 363–87.

11. Stephen G. Brooks, "Dueling Realisms (Realism in International Relations)," *International Organization* 51, no. 3 (summer 1997): 445–77.

STRUCTURAL REALISM: DEFENSIVE AND OFFENSIVE

STRUCTURAL REALIST THEORIES broadly argue that the nature of the international system and changes in its structure will guide interstate behavior, and not the internal characteristics of the participants. Realist theorists can broadly be divided into “defensive realists” and “offensive realists.”¹² One primary distinction is the role of the anarchic international system in guiding great power behavior and whether it pressures states to maximize their security or to maximize their power. For defensive realists, states maximize their security through preserving the existing balance of power.¹³ Defensive realists maintain that the international system pushes states to pursue moderate behavior to ensure their survival and safety. The rationale is that moves to maximize power through hegemony or preponderance is unproductive because it will provoke counterbalancing behavior, and thereby thwart the state’s effort to gain power.

Offensive realists charge that the anarchic nature of the international system pushes states to maximize their share of world power in order to make themselves more secure.¹⁴ The reasoning is that the more power and the stronger the state, the less likely it will be a target, since weaker powers will be reluctant to fight. In *The Tragedy of the Great Powers*, John Mearsheimer repeatedly emphasizes that “states quickly understand that the best way to ensure their survival is to be the most powerful state in the system.”¹⁵ For Mearsheimer, “Hegemony is the ultimate form of security.”¹⁶ The tragedy is that states that have no qualms are forced to maximize power which can bring them into conflict.

For offensive realists, the international system creates powerful incentives for states to look for opportunities to gain power at the expense of rivals. These include expansionist and aggressive foreign policies, taking advantage of opportunities to gain more power, and weakening potential challengers through

12. Robert Jervis, “Cooperation Under the Security Dilemma,” *World Politics* 30, no. 2 (January 1978): 167–214; Sean M. Lynn-Jones, “Offense-Defense Theory and its Critics,” *Security Studies* 4, no. 4 (summer 1995): 660–91; Benjamin Frankel, ed., “Restating the Realist Case: An Introduction,” in *Realism: Restatements and Renewal* (Portland: Frank Cass, 1996), ix–xx; Barry R. Posen and Andrew L. Ross, “Competing Visions for U.S. Grand Strategy,” *International Security* 21, no. 3 (winter 1996/97): 5–53; Jeffrey W. Legro and Andrew Moravcsik, “Is Anybody Still a Realist?” *International Security* 24, no. 2 (fall 1999): 5–55; and Jeffrey W. Taliaferro, “Security Seeking under Anarchy: Defensive Realism Revisited,” *International Security* 25, no. 3 (winter 2000/1): 128–61.

13. Kenneth N. Waltz, *Theory of International Politics* (Reading: Addison-Wesley, 1979); Christopher Layne, “From Preponderance to Offshore Balancing: America’s Future Grand Strategy,” *International Security* 22, no. 1 (summer 1997): 86–124.

14. Zakaria, *From Wealth to Power*; Randall L. Schweller, “Neorealism’s Status Quo Bias: What Security Dilemma?” *Security Studies* 5, no. 3 (spring 1996): 90–121; Labs, “Beyond Victory”; Mearsheimer, *The Tragedy of Great Power Politics*, 168–72.

15. Mearsheimer, *The Tragedy of Great Power Politics*, 33.

16. *Ibid.*, 345.

preventive wars or “delaying tactics” to slow their ascent. In fact, only a misdirected state will pass up such opportunities. One important caveat is that as opportunistic expansionists, states are sensitive to cost, and not mindless expansionists.¹⁷ Offensive realism does not predict that states will always adopt the most costly military strategies or that they will pursue expansionist strategies at all times and under all circumstances.

For both offensive and defensive realists the nature of and shifts in the international setting will direct state behavior. Where these approaches differ is in how much power the international environment encourages states to aggregate. For defensive realists, the international structure encourages moderation, while offensive realists maintains that the system provides incentives for hegemony and preponderance.

WAR AND DOMESTIC POLITICS

STRUCTURAL REALISM IGNORES the internal politics of war and war preparation, and the suboptimal security strategies that can result from such domestic competition. Within liberal states, two broad and logrolled coalitions (“free trade” and “economic nationalists”) will battle to advance their faction’s preferred security strategy (and perhaps the nation’s) and to capture the associated distributional benefits. Supporters and opponents understand that the extent and form of how the state prepares for war and how it fights the war will generate domestic victors and vanquished (see Table 1).¹⁸ Members of the free trade bloc will push for a defensive oriented security strategy because it will have the internal consequence of ratcheting up the power of their own supporters, while concomitantly rolling back the opposing economic nationalist faction. Free traders will resist an offensive security strategy because it will empower the economic nationalists, who will capture the distributional gains, and thereby push the state toward a more hard-line security strategy. Economic nationalists will push for an offensive oriented security strategy because it will have the domestic affect of boosting their own faction, while weakening the

17. Labs, “Beyond Victory,” 12–14; Zakaria, *From Wealth to Power*, 35, 42.

18. For a discussion of domestic winners and losers in the political economy literature, see Richard B. Freeman, “Are Your Wages Set in Beijing?” *Journal of Economic Perspectives* 9, no. 3 (summer 1995): 15–32; Jeffrey A. Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965–1985* (Princeton: Princeton University Press, 1991); Hector E. Schamis, “Distributional Coalitions and the Politics of Economic Reform in Latin America,” *World Politics* 51, no. 1 (January 1999): 236–68; Ethan B. Kapstein, “Winners and Losers in the Global Economy,” *International Organization* 54, no. 2 (spring 2000): 359–84. On the international side, see Lloyd Gruber, *Ruling the World: Power Politics and the Rise of Supranational Institutions* (Princeton: Princeton University Press, 2000).

opposing free trade bloc. Economic nationalists will oppose a defensive security strategy because it will strengthen the free traders, who will lobby the government for a more temperate security strategy.

Suboptimality occurs when the empowered faction advances a security strategy that will ratchet up its coalitional interest, even if it harms the national interest by eroding the state's productive capacity or military security. Alternatively, the coalition that is under threat of being rolled back will resist a security strategy because it will harm their faction's interests, even if the chosen strategy is in the nation's interests. Any reversal in the domestic balance of political power can again set these forces into play, reorienting the state's security strategy. Thus, the purpose here is to understand how states formulate their security strategies given domestic political competition.

Table 1
WAR IS POLITICS

	Offensive security Strategy	Defensive security Strategy
Economic nationalists	1. Empower economic nationalists; weaken free traders	3. Empower free traders; weaken economic nationalists
Free traders	2. Empower economic nationalists; weaken free traders	4. Empower free traders; weaken economic nationalists

The composition of these domestic coalitions span state and private actors, and national interest groups, and their allegiance will depend on whether their incentives are inward and national oriented or outward and international oriented. As Peter Gourevitch notes, "what people want depends on where they sit."¹⁹ The primary constituents of the economic nationalist bloc include the military and security commanders, settler groups, unskilled labor, inefficient industry and agriculture, import-substituting manufacturing, public sector workers and managers, and colonial and empire oriented state bureaucrats.²⁰

19. Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986), 56.

20. Eckart Kehr, *Economic Interests, Militarism and Foreign Policy: Essays on German History*, ed. Gordon A. Craig (Berkeley: University of California Press, 1977); Herman Lebovics, *The Alliance of Iron and Wheat in the Third French Republic, 1860–1914: Origins of the New Conservatism* (Baton Rouge: Louisiana State University Press, 1988); Haggard and Kaufman, "The

The main supporters of the opposing free trade faction include fiscal conservatives, export-oriented firms (capital intensive, large banking and financial services, capital exporters, liquid asset holders), smaller firms oriented to global markets, skilled labor, and finance oriented civil servants and government bureaucracies.

ECONOMIC NATIONALISTS AND AN OFFENSIVE SECURITY STRATEGY

Economic nationalists prefer an offensive external security strategy, which will have the domestic effect of ratcheting up their faction's relative power, while simultaneously weakening the opposing free trade coalition (Cell 1).²¹ In capturing the distributional gains from an offensive strategy, empowered economic nationalists will lobby the national leadership for higher defense expenditure, national military and industrial conscription, protection for industry and agriculture, and a total-war economy to fully mobilize the state's resources. Such a strategy will generate the necessary economic, industrial, and military power for an offensive and expansionist war, but if taken too far can undermine the state's productive capacity.

First, members of the economic nationalist bloc favor a military posture that calls for offensive ground-force systems, lobbying the government for national military conscription to support a substantial standing army.²² The institutional bias of the military-industrial complex and the national security apparatus is to produce a military doctrine that assures victory. As a result, there is pressure to adopt offensive rather than defensive strategies. The benefit for the military and intelligence agencies is an increase in their budget, role, and mission. Outside of the government, private and government-owned defense industries, workers, military bases, and partisan leaders who represent these areas will receive direct economic benefit from the maintenance of a strong defense and high military budget.

Politics of Stabilization"; John Waterbury, "The Political Management of Economic Adjustment and Reform," in *Fragile Coalitions: The Politics of Economic Adjustment*, ed. Joan M. Nelson (New Brunswick: Transaction Books, 1989), 39–56. The timing of development can play a role in differential domestic arrangements, influencing the relative strength of free traders and economic nationalists. In early developers, the state is less interventionist while in the late and late late, the state plays a leading role in development.

21. On ratchets, see Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987), 57–74; Bruce Porter, *War and the Rise of the State: The Military Foundations of Modern Politics* (New York: Free Press, 1994), 14; and Friedberg, *In the Shadow of the Garrison State*, 30–32. For a discussion and example of degrees of coalitional strength, see Solingen, *Regional Orders*, 64, fig. 2.

22. John Lewis Gaddis, *Strategies of Containment* (New York: Oxford University Press, 1982), 90–95. On the preference for offensive military strategies, see Posen, *The Sources of Military Doctrine*, 47–58.

Second, economic nationalists will favor a total-war economy to fully mobilize the state's resources. They will call for state intervention and wartime controls over all aspects of industry, the economy, and manpower allocation rather than the reliance on volunteerism, private industry, and market mechanisms. Economic nationalists will support an active government that controls prices, licensing, purchasing, and wages. They will lobby for the extension of the state's legal power to take direct control over the private sector, especially armament industries and transportation, to insure their optimal use. Economic nationalists will encourage the collaboration and amalgamation of industry into big business, and corporatist labor arrangements to compel labor's cooperation with management and the government (especially prohibiting labor strikes). As such, state enterprises such as the military industrial complex, agriculture, state managers, and public sector monopolies will capture a large share of societal resources.

Third, state encroachment and war planning is viewed by economic nationalists as the engine for enhancing domestic industry. Economic nationalists will define such sectors as strategic for national defense (and will push for state support for "strategic" technologies), emphasizing the danger of dependence on imports. They will lobby for tariffs, duties, and subsidies to protect inefficient and infant industry from foreign competition while increasing overall domestic consumption. Such protection means that industry will enjoy sectoral monopolies in domestic markets. Economic nationalists will also recommend technological and financial assistance for national agricultural production and the creation of vast stocks of raw materials. One consequence is that companies dependent on government contracts and credit are threatened by economic liberalization such as devaluation, budget cuts, restrictions on domestic credit, and reforms that reduce protection and government support.²³ Finally, economic nationalists will favor controls on capital, opposing overseas lending because it will strengthen foreign competition. Where such firms are prominent and can mobilize political resources through peak organizations, parties, and the media they will challenge the free trader's imposition of fiscal and monetary reform.

Lastly, economic nationalists will favor strengthening economic and military ties to colonies, the empire, or any occupied areas and perhaps expanding imperial interests to promote self-sufficiency and embracing a "fortress" concept.²⁴ State bureaucrats and civil servants with strong ties to the empire, and especially colonial offices and administrators, will favor imperial unity fearing

23. Haggard and Kaufman, "The Politics of Stabilization."

24. Friedberg, *In the Shadow of the Garrison State*.

dismantlement of state enterprises. During wartime, economic nationalists will regard colonial manpower and markets as an important source of national power.²⁵ Economic nationalists are likely to use external threats and strategic myths such as economic self-sufficiency, imperialist ideologies, and national security to sustain themselves politically.²⁶ Refusal to compromise with an historical enemy and an inflexible position at peace talks is associated with diligence and self-sacrifice.²⁷

FREE TRADERS AND A DEFENSIVE SECURITY STRATEGY

For free traders, a defensive security strategy will have the internal result of strengthening their faction, while rolling back the opposing economic nationalist bloc (Cell 4). Free traders know that an offensive security strategy will lead to increased state intervention in the economy, heightened military spending, and protection for industry and agriculture, thereby empowering the opposing faction.²⁸ Their concern is that it is difficult to reconcile the maintenance of a liberal economy with the requirements of war and war preparation. The war economy will require state intervention in business and management of the economy to coordinate production, industrial and military conscription, price fixing, protection of vital resources and industry, and industrial cartels and the amalgamation of industry. As such, minor state encroachment and partial controls will lead to broad controls and will often necessitate government intervention further back or forwards.²⁹ Ultimately, the state can find itself directing a major part of the country's industries, labor force, and finances.³⁰

First, in wartime, the goal of the free trade coalition is to minimize disruptions to the domestic economy. In emphasizing the role of finance and the state's limited financial means, the members of the free trade coalition will favor relying on low cost defense arrangements such as the navy, air force, nuclear weapons, and labor saving technology to protect the nation's interests over a more costly conscripted standing army. Free traders counter that such national security strategies will divert the least amount of manpower and re-

25. Mark Brawley, *Liberal Leadership: Great Powers and Their Challengers in Peace and War* (Ithaca: Cornell University Press, 1993).

26. Snyder, *Myths of Empire*, 35–38.

27. Lawson, *Why Syria Goes to War*, 152.

28. John A. Vasquez, *The War Puzzle* (Cambridge: Cambridge University Press, 1993), 207–10.

29. Kathleen Burk, ed. "The Treasury: from Impotence to Power," in *War and the State: The Transformation of British Government, 1914–1919* (Boston: George Allen and Unwin, 1982); Higgs, *Crisis and Leviathan*.

30. Sidney Pollard, *The Development of the British Economy, 1914–1967* (New York: St. Martin's Press, 1969), 44.

sources from domestic industrial production, while unrestrained defense spending will result in high inflation, budget deficits, confiscatory taxes, and economic controls that will ultimately bankrupt the state.³¹ As well, a strong navy or air force is deemed essential to protect the sea lanes of communication, trade links, and trade routes to secure imports and exports. Free traders will also triumph economic sanctions and blockades to weaken the economy of the adversary and bring about their economic collapse.

Second, free traders will favor fiscal and monetary restraint.³² In wartime, free traders argue that economic stability and military strength are inseparable. They emphasize that the state will need to heighten exports in order to earn foreign currency to compensate for the increased imports necessary for the war effort or risk bankrupting the economy by the end of the war. They oppose calls for a large standing army and offensive military strategies on the ground that they will drain manpower and resources from export industry. Free traders also highlight the role of monetary discipline, volunteerism, and market mechanisms to prevent wasteful expenditure and inflation, while rejecting central planning and a command economy that will benefit specific domestic producers.

Third, free traders favor military alliances in order to distribute the cost of war. If possible, the proper role for the state is to act as the quartermaster of the alliance, providing loans and military equipment to their allies (instead of dispatching troops overseas). Free traders support enhancing national security through low-cost means such as membership in intergovernmental organizations (IGOs) and nongovernmental organizations (NGOs), collective security arrangements, and international arms limitation and arms reduction agreements.

Finally, free traders are open to negotiated settlement of conflicts. They prefer to ease international tension and to settle international disputes in order to lower the political, economic, and military costs of war. Prolonged war is especially dangerous because it will divert resources from productive domestic investment to military spending, and thereby undermine prosperity, disrupt trade flows, and contribute to increased protectionism. Free traders will appeal to liberal members in opposing states, attempting to strengthen their position, in order to moderate an adversary's war policies.

RATCHETS, ROLLBACKS, AND REORIENTATIONS OF STRATEGY

31. Gaddis, *Strategies of Containment*.

32. Haggard and Kaufman, "The Politics of Stabilization"; Solingen, *Regional Orders*.

ANY SHIFTS IN the domestic balance of political power between the free trade and economic nationalist factions can reinforce or reorient the state's security strategy. The beneficiaries will try to accelerate and expand the internal redistribution of power by pushing for a more offensive or defensive security strategy, while the losers will seek to retard and halt it.

ECONOMIC NATIONALISTS: RATCHETS AND ROLLBACKS

Economic nationalists will resist a defensive security strategy because it will ratchet up the strength of the free trade faction, while rolling back their own supporters (Cell 3). Protected state-run enterprises and import competing industry will oppose such a security strategy since they will bear the burden of a reduction in government controls and rents. A decline in tension will weaken the security apparatus and the military-industrial complex by diverting the resources away from defense expenditure (and undermining the myth of national security through expansion). State affiliated managers and colonial bureaucrats are threatened by the dismantlement of state-owned enterprises and the public sector monopolies and monopsonies, devaluations, budget cuts, deregulation, lowering of tariffs, lowering of social welfare spending, and the retreat from empire.

In upsetting the domestic balance of political power, a defensive strategy will strengthen free trade supporters who will press for a comparatively softer security strategy and militate toward a more flexible stance. Free traders have an interest in economic liberalization and the formation of closer ties to the outside world. Concerned for fiscal orthodoxy and a greater reliance on market forces, they will lobby for a reduction in protectionism and expansion of the private sector. Their policy package will include retreat from empire, liberalization of trade and exchange rate policies, improved efficacy of government spending, reduction in bloated state apparatuses, changes in tax policies (releasing resources for private investment), and replacing bureaucratic control by market mechanisms.³³ Free traders will emphasize air, naval, and nuclear forces, and enhancing security through economic sanctions, collective security, and arms control. Such actions will escalate free trader activities, further undercutting the position of the economic nationalists.

33. Peter B. Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Changes," in *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State*, eds. Stephan Haggard and Robert R. Kaufman (Princeton: Princeton University Press, 1992), 139–42.

FREE TRADERS: RATCHETS AND ROLLBACKS

Free traders will reject an offensive security strategy because it will ratchet up the economic nationalist bloc, while rolling back their own constituents (Cell 2). The bulk of the outward oriented free trade supporters will lobby against immoderate military and commercial punishment, resulting in high budget deficits, inflation, and excessive borrowing. Free traders will contest offensive military proposals and will try to slim down inflated military budgets. Free traders will seek to limit the retreat from fiscal orthodoxy and will oppose calls for high tariffs and duties (they also recognize that the long-term risk from protection is a decline in the proportion of the economy that is involved in the international economy). Finally, free traders will warn of the danger of the misallocation of societal resources due to the decline in competition and the encroachment of state intervention, protectionism, and sector monopolies. For fiscal conservatives and finance oriented government bureaucracies, a defensive strategy translates into lower levels of defense expenditure and increased savings and foreign exchange earnings. By-products of greater fiscal and monetary restraint are lower inflation, reduced taxation, and currency stability, further benefiting the export sectors.

An offensive security strategy will enhance economic nationalists who will push for a more belligerent stance. State-affiliated managers and state-run (or public sector) enterprises will lobby for increased control over the production and distribution of national resources (through indirect measures such as prices, licensing, purchasing, and wages or direct measures such as new bureaucratic agencies). The military-industrial complex and the national security apparatus will favor offensive ground strategies, supported by military and industrial conscription. Inefficient industry and agriculture will press for external supports, protection, and a settled share of the domestic market to foreign competition.³⁴ Defined as strategic for national security, they will receive such state patronage. Empire, settler groups, and colonial bureaucrats will call for extracting and mobilizing resources from the empire or occupied territories, contributing to stronger links to the empire-territories. Concomitantly, expansionary fiscal policy benefits the public sector. Finally, belligerence will dampen moves by free traders such as export-oriented industry to further escalate their collaboration with counterparts in rival states.³⁵

SELF-REINFORCING SUBOPTIMALITY

34. Pollard, *The Development of the British Economy*, 53.

35. Lawson, *Why Syria Goes to War*, 152.

Concerns about the domestic distributional consequence from ratchets, roll-backs, and reorientations can affect whether the supporters of the economic nationalist and free trade factions will respond nationally or coalitionally to external threats. The coalitional interest is to bolster its own faction's relative power over the opposing bloc's, ensuring its survival. The national interest is to prepare for war without undermining the state's productive capacity or eroding its military security. In some instances these interests will coincide, pointing in the same direction, and the chosen strategy will advance both interests.

Suboptimality occurs when the faction that is under threat of being rolled back advocates a *self-reinforcing* security strategy.³⁶ Such a strategy will ratchet up the threatened faction's relative power by capturing the associated distributional gains, but will undermine the nation's interests by eroding its economic staying power or military security.³⁷ Self-reinforcing strategies are most likely to be selected when the threatened coalition faces a severe setback to its relative power if it advances the nation's interest over its faction's interests. The import is that internal competition can disrupt the state's adjustment to external circumstances.

Economic nationalists and self-reinforcing suboptimality: Economic nationalists will push for an offensive security strategy (which will advance their coalition's interests) and will oppose a defensive security strategy (which will empower the free traders), even if the latter is in the nation's interests. The danger of an offensive security strategy is that it can undermine the state's productive capacity by wasting resources through an overly expensive and expansive security strategy. High levels of defense expenditure can erode the state's economic base (private and public resources) for future military security. As Robert Gilpin and Paul Kennedy warn, excessive and sustained military expenditure will divert resources from domestic investment, limit future economic growth, and erode the financial basis that the state has to construct and maintain a modern military force.³⁸

36. I would like to thank Arthur Stein for this term. For an application to foreign economic policy, see Jeffrey A. Frieden, "Sectoral Conflict and Foreign Economic Policy, 1914–1940," *International Organization* 42, no. 1 (winter 1988): 59–90.

37. Friedberg, *The Weary Titan*; Snyder, *Myths of Empire*; Bueno de Mesquita and Lalman, *War and Reason*; and Kupchan, *Vulnerability of Empire*. According to David, ruling elites in the Third World balance against internal threats to their regime's survival as well as against more traditional external threats to the state. Such elites will advance the regime's interests, even if it overrides the state's. See Steven R. David, "Explaining Third World Alignments," *World Politics* 43, no. 2 (January 1991): 243.

38. Robert Gilpin, *War and Change in World Politics* (New York: Cambridge University Press, 1981); Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987).

A three step argument links military spending and economic decline.³⁹ First, military spending diverts resources from wealth creating activity, such as domestic investment, research and development (commercial, not military), education, the infrastructure, equipment and factories, and the like. Second, a shift in resources away from productive investment slows the expansion of the existing stock of capital and national wealth available for investment, and impedes the rate at which technology and innovation spread throughout the economy. Finally, by constraining reinvestment, innovation, and production, military spending reduces the state's long-term productive capacity to generate future military security. One problem with this argument is that the long time lag between extraction and decline makes it difficult to ascertain whether military spending is the primary culprit of economic decline.⁴⁰

Free traders and self-reinforcing suboptimality: Free traders will push for a defensive security strategy and will resist an offensive security strategy, even if the latter policy advances the state's interest. The danger of a defensive security strategy is that it can erode the state's military security. In allocating too few resources to defense, administrative shortcomings, and lacking industrial and manpower mobilization, the state risks having insufficient military capacity to defend itself. Once more, concern for economy, which reflect its constituents' interests, means that free traders favor extending military, economic, or territorial concessions in order to moderate a challenger's demands and to pursue the least confrontational posture possible.⁴¹ The types of concessions most acceptable are those that impede the increase in the military and economic power of the contender. If free traders can convince the contender to moderate its expansion, then they can lighten the unbearable burden of fighting against multiple challengers. Yet, if the challengers renege or cheat on the economic, political, and military agreements, this will compound the state's deficient military and military-industrial capacity. The danger, as E. H. Carr warns, is that "weaker states will renounce treaties concluded by them with stronger states so soon as

39. Seymour Melman, *The Permanent War Economy: American Capitalism in Decline* (New York: Simon and Schuster, 1974); Gilpin, *War and Change*, 156–85; Kennedy, *The Rise and Fall*, 514–35.

40. For a critical assessment of the link between military burdens and economic growth, see Karen A. Rasler and William R. Thompson, "Relative Decline and the Overconsumption-Underinvestment Hypothesis," *International Studies Quarterly* 35, no. 3 (September 1991): 273–94; Charles A. Kupchan, "Empire, Military Power, and Economic Decline," *International Security* 13, no. 4 (spring 1989): 36–53.

41. For a review of the literature on appeasement, see Paul W. Schroeder, "Munich and the British Tradition," *Historical Journal* 19, no. 1 (March 1976): 223–43; Paul M. Kennedy, "Strategy versus Finance in Twentieth-century Britain," in *Strategy and Diplomacy* (London: Fontana Press, 1983), 15–39; J. L. Richardson, "New Perspectives on Appeasement: Some Implications for International Relations," *World Politics* 40, no. 3 (April 1988): 289–316.

the power position alters and the weaker state feels itself strong enough to reject or modify the obligation.⁴²

CAVEATS

The domestic process of strengthening or weakening a coalition involves more than merely the shift of members from one coalition to another. Domestic actors and interest groups deploy resources in order to capture particularistic gains and mobilize support, whether through lobbying, donations, or the promise of votes.⁴³ This includes new political parties, mobilizing activists and generating new supporters, greater public attention for their agenda and votes in elections, new lobbying and peak organizations which deploy resources in order to gain particular benefits, and additional public and private resources.⁴⁴

There are several constraints on the ability of the strengthened coalition to convert its interests and preferences into policy outcomes.⁴⁵ Collective action and free rider problems can make it difficult for large logrolled coalitions to organize and voice their preferences.⁴⁶ Newly empowered factions will also have a disadvantage in implementing their preferences. In the case of empowered economic nationalists, according to Judith Goldstein, if orthodox policies have become entrenched in state institutions, these institutions will resist protectionism and expansionary fiscal policies (for either social or defense spending).⁴⁷ The same type of institutional barriers will confront empowered free traders if imperial policies have become entrenched. Finally, economic nationalists will have certain advantages in organizing because they can create rents through tariffs and imperial preferences, rewarding specific groups or compensating losers (while dispersing costs among a larger set of groups). Empowered free traders will reduce protectionism and thereby diminish custom duties and revenue for state patronage. Yet, in enhancing the nation's aggregate welfare, free traders will create more wealth to go around and to be redistributed to reward supporters, making coalition building easier.

42. Edward Hallet Carr, *The Twenty Years' Crisis, 1919-1939* (New York: Harper and Row, 1964).

43. Mancur C. Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven: Yale University Press, 1982).

44. Snyder, *Myths of Empire*, 36.

45. See James E. Alt and Michael Gilligan, "The Political Economy of Trading States: Factor Specificity, Collective Action Problems, and Domestic Political Institutions," *Journal of Political Philosophy* 2, no. 2 (1994):165-92.

46. Russell Hardin, *Collective Action* (Baltimore: Johns Hopkins University Press, 1982).

47. Judith Goldstein, *Ideas, Interests, and American Trade Policy* (Ithaca: Cornell University Press, 1993).

BRITAIN'S LIMITED LIABILITY SECURITY STRATEGY

OFFENSIVE REALISM suggests that Britain adopted a Limited Liability strategy to increase its relative power against all of the major power contenders seeking continental hegemony (while defensive realism suggests that London was motivated by the danger if France and Russia collapsed). A Limited Liability strategy meant that London would serve as the paymaster to the Entente, financing the military operations of the allies and producing the supplies they needed to fight the Germans on land while restricting Britain's own military operations. The Royal Navy would blockade German ports and a small volunteer army (the British Expeditionary Force, 130,000-160,000 men) would support the left flank of the French army. Such a strategy would increase Britain's relative power cheaply by keeping its manpower in reserve, untapped by the war, while shifting the cost of balancing to France and Russia, whose armies would bear the brunt of the fighting.⁴⁸ By letting France, Russia, Germany, and Austria weaken each other, Britain would emerge from the Great War as the strongest state. After all, Britain would have suffered minimal losses whereas the other belligerents would have expended considerable resources and lost significant numbers of soldiers. Once the Central Powers and Britain's allies fought to a standstill, London could seize the initiative, delivering the final knock-out blow against a nearly defeated Germany. As the undisputed master, Britain would dictate the peace terms to its allies and enemies in the post war negotiations.

Offensive realism faces an anomaly in explaining why Britain selected a Limited Liability security strategy. It was known that this strategy would be insufficient to defeat Germany and it could threaten Britain's survival.⁴⁹ At best, a naval blockade alone could not bring Berlin (a land power) to its knees since the blockade could not prevent overland German resupply. At worst, if France was quickly overrun and the Belgian coast was occupied, then Germany could challenge Britain's limited military capabilities. Scant spare military-industrial capacity, outdated technology, a lack of a central planning staff, and limited administrative apparatus to run the war, control resources, and coordinate government operations would greatly slow Britain's ability to mobilize its defenses.

Driven by the distributional consequences from a Continental Commitment (full-scale frontal assault on the Western front, implementation of the Military Service Act introducing universal conscription, closer ties to the empire, and

48. David French, *British Strategy and War Aims: 1914-1916* (Boston: Allen and Unwin, 1986); Labs, "Beyond Victory."

49. A second anomaly is why Britain jumped to a Continental Commitment in 1916 over a less costly limited blows or war of attrition strategy.

destroying Prussian militarism), threatened free traders pushed for a Limited Liability strategy. As discussed below, free trade supporters were concerned that greater military, industrial, economic, and financial preparation for war would threaten their coalition's survival and roll back their prewar gains while ratcheting up the opposing economic nationalists (who would push for an even more hard-line security strategy). As such, well before the outbreak of the First World War, entrenched free traders blocked any policies that would harm their faction, even though such actions would better prepare Britain for the coming war.

FREE TRADE BLOC

The members of the free trade and economic nationalist coalitions clashed on key issues such as naval construction, army reform, and national conscription; staff talks and naval conversations with France and Russia; Continental intervention; tariffs and imperial preferences; fiscal orthodoxy and state intervention in the economy; international arms control and arms reduction agreements; and the Empire. Free trade supporters lobbied for freer trade, fiscal and monetary orthodoxy, voluntarism, temperance, and antimilitarism. The members of the free trade faction include the Labour and Liberal Parties, the Radicals, a complex of international financial services, export oriented firms, state bureaucracies such as the Treasury and the Foreign Office, the trade unions (TUC), and many top civil servants wedded to Gladstonian orthodoxy.⁵⁰ Both the Labour and the Liberal Parties favored the policy agenda of freer trade, retreat from empire, and reduced defense spending (rejecting the Cawdor memorandum inherited from the Unionist that called for laying down four capital ships annually), thereby releasing resources for social reform programs.⁵¹ Such savings would be possible by downgrading the two-power naval standard to a 60 per

50. Frank Longstreth, "The City, Industry, and the State," in *State and Economy in Contemporary Capitalism*, ed. Colin Crouch (New York: St. Martin's, 1979), 157–90; Keith Middlemas, *Politics in Industrial Society: The Experience of the British System since 1911* (London: A. Deutsch, 1979); Geoffrey K. Ingham, *Capitalism Divided? The City and Industry in British Social Development* (New York: Schocken Books, 1984); Scott Newton and Dilwyn Porter, *Modernization Frustrated: The Politics of Industrial Decline in Britain since 1900* (Boston: Unwin Hyman, 1988); and Jim Tomlinson, *Public Policy and the Economy since 1900* (Clarendon Press: Oxford, 1990).

51. Hugh V. Emy, *Liberals Radicals and Social Politics: 1892–1914* (Cambridge: Cambridge University Press, 1973); Michael Howard, "The Edwardian Arms Race," in *Edwardian England*, ed. Donald Read (London: Croom Helm, 1982), 207–21; David French, *British Economic and Strategic Planning, 1905–1915* (Boston: George Allen and Unwin, 1982); and Rhodri Williams, *Defending the Empire: The Conservative Party and British Defence Policy 1899–1915* (New Haven: Yale University Press, 1991).

cent standard and by reducing international tensions.⁵² The Radicals, subscribed to the ideal of “universal disarmament, friendly relations with all countries, open diplomacy, and the settlement of international disputes by arbitration.”⁵³ Opposing the principle of balance of power, they called for a new League of Peace, improved Anglo-German relations, ending Anglo-French staff talks (1911), and argued that Britain could not expect relatively weaker navies to make the first move toward naval disarmament.⁵⁴

The City of London included international banking, financial services, shipping, insurance, overseas merchanting, and income from capital invested overseas. They lobbied for freer trade by reducing tariffs and duties, the elimination of regulation by the state, and ensuring that the sterling maintained its position as the reserve currency for the world monetary system and as the major vehicle for international economic transactions.⁵⁵ The political power of the City extended through private organizations such as the Bank of England and key state bureaucracies such as the Treasury. The Bank of England, as the guardian of the gold standard, was the most important element in determining the money supply in Britain.⁵⁶ For the gold standard to function smoothly, trade had to flow freely, unimpeded by restrictive tariffs and duties. Once more, confidence in the stability of the sterling was essential for it increased the desire to purchase British goods and services. The Treasury Department, as the watchdog over government finance, was responsible for striking a balance between the competing demands of government expenditure (civil and military) and

52. The Naval Defence Act formally called for Britain to maintain a two-power standard or a navy “at least equal to the naval strength of any two other countries.” See Arthur J. Marder, *The Anatomy of British Sea Power: A History of British Naval Policy in the Pre-Dreadnought Era, 1880–1905* (New York: Knopf, 1940), 106. For Hamilton, the two-power standard was based on modern battleships, but extended to first-class cruisers too.

53. A. J. A. Morris, “The English Radicals’ Campaign for Disarmament and the Hague Conference of 1907,” *Journal of Modern History* 43 (1971): 367. On opposition, see Howard Weinroth, “Left-wing Opposition to Naval Armaments in Britain before 1914,” *Contemporary History* 6, no. 4 (1971): 93–120.

54. Samuel R. Williamson Jr., *The Politics of Grand Strategy: Britain and France Prepare for War, 1904–1914* (London: Ashfield Press, 1969).

55. Longstreth, “The City,” 160–63; Ingham, *Capitalism Divided*, 96–102, 113–16; Peter J. Cain and Anthony G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914–1990* (London: Longman, 1993), 125–31. Daunton divides the City into four primary groupings: bankers, financiers and stockbrokers; shipping interests; middlemen and importers; and colonial houses. See M. J. Daunton, “‘Gentlemanly Capitalism’ and British Industry 1820–1914,” *Past and Present* 122 (1989): 149. On other characteristics of the members of the City, see Lance E. Davis and Robert A. Huttenback, *Mammon and the Pursuit of Empire: The Economics of British Imperialism* (Cambridge: Cambridge University Press, 1986), 162–82.

56. Sidney Pollard, *Britain’s Prime and Britain’s Decline: The British Economy 1870–1914* (New York: Edward Arnold, 1989), 244–50; Tomlinson, *Public Policy*, 25–28. The Bank of England was a private enterprise and the government had no direct access to its decision making. Yet, the government asked for and frequently took the advice of the Bank of England on questions of monetary policy and related issues

maintaining the health of the economy. The philosophy of the Treasury was steeped in the Gladstonian tradition of limited government expenditure on defense and social welfare, low taxation, minimal interference in the economy, and freer trade.⁵⁷ The belief was that Britain's fiscal strength was a third leg of defense, upon which the army and the navy would rely in the event of a prolonged conflict.

ECONOMIC NATIONALIST FACTION

In response to commercial and military challenges from the United States, France, Russia, Germany, and Japan, the economic nationalists called for a big army and navy, national service, tariff reform, trade protection, empire unity, and national efficiency and industrial planning.⁵⁸ The economic nationalist coalition included inefficient industry, arable agriculture and landowners, the Chamber of Commerce, the military services, supporters of the Conservative Party, and pro-Empire organizations and colonial bureaucrats.

The majority of the Conservative Party feared for the continued safety of the Empire and they demanded stronger measures of national defense, arguing that the agenda of the free trade coalition was weakening industry at home and in the Empire and sapping Britain's military strength.⁵⁹ Prominent among the Conservative Party membership, the diehards (landed Conservative aristocrats in the House of Lords), were active in organizations designed to promote a big army and navy, national service, and tariff reform.⁶⁰ Other important lobbying organizations supported by Conservatives and diehards included the Navy League (established in 1895), the National Service League (1902), and the Imperial Maritime League (1908).⁶¹ Absent in the rosters of these organizations were members of the free trade coalition, such as bankers, labor representatives, and members of the leading City houses.

The most influential organization calling for imperial preferences was Joseph Chamberlain's Tariff Reform League (1903).⁶² They were joined by the Na-

57. Hugh V. Emy, "The Impact of Financial Policy on English Party Politics before 1914," *Historical Journal* 15 (1972): 103–31, 105–7; Tomlinson, *Public Policy*, 28–30.

58. Steiner, *Britain and the Origins*.

59. The Unionist or Conservative Party was split between Tariff Reformers, Free Traders, and a center group led by Arthur Balfour.

60. Gregory D. Phillips, *The Diehards: Aristocratic Society and Politics in Edwardian England* (Cambridge: Cambridge University Press, 1979), 82–110; Williams, *Defending the Empire*, 3, 28–30.

61. Marder, *The Anatomy of British Sea Power*, 49–55.

62. Other proimperial preference groups included the National Fair Trade League, the Imperial Federation League, the British Empire League, the United Empire Trade League, and the Tariff Commission.

tional Agricultural Union, especially wheat growers, who sought protection to secure more homegrown food production, emphasizing the national security risk of Britain's dependence on imported food in the event of war. They also pushed for the national government to establish granaries in which supplies of wheat could be stored in peacetime for use during emergencies. Chamberlain sought to establish the Conservative Party as the party of protection and Empire.⁶³

Many members of the armed services (navy, army) called for increased defense spending to maintain Britain's naval supremacy. By revising the traditional two-power naval standard to a three- or four-power naval standard, the Admiralty argued that Britain could maintain its command of the high seas and its local supremacy in the Far East, the Mediterranean, and the Americas. In response to the free traders concern for economy, the Admiralty countered that resources must be found for the Navy, since defeat at sea would be far more ruinous than any damage to the economy due to increased government expenditure.⁶⁴ After the Agadir crisis (1911), the War Office (General Staff) firmly embraced the ideal of a major land commitment to the continent. Some even envisioned Britain becoming a major land power as well. The military was determined that the British Expeditionary Force (BEF) should be sent to France to cooperate with the French army on the Franco-Belgian frontier. In 1913, the Conservatives (with one Liberal sponsor) introduced a bill calling for compulsory training to replace the failed attempt at voluntary recruiting for the Territorial Army, but faced opposition from both the Liberal and Labor parties.⁶⁵

There were few links between the free trade and economic nationalist blocs. No important bankers joined Chamberlain's Tariff Reform League.⁶⁶ The directorate of the Bank of England was dominated by the leading City merchant banks and merchant houses, with few industrialists. Of the 35 firms represented on the Board of the Bank of England between 1890 and 1914, 13 (37 percent) were merchant bankers, 17 (49 percent) were merchants, and 5 operated in other spheres.⁶⁷ When the Treasury called on outside experts, this usually involved people from the City or ex-chancellors of the Exchequer.⁶⁸ Industrialists distrusted the Bank of England's freedom of action, calling for a new central bank with purely administrative control, lower interest rates, a politically

63. E. H. H. Green, *The Crisis of Conservatism: The Politics, Economics, and Ideology of the British Conservative Party, 1880–1914* (New York: Routledge, 1995), 69–77.

64. George W. Monger, *The End of Isolation: British Foreign Policy 1900–1907* (London: Thomas Nelson, 1963), 9–10.

65. French, *British Economic and Strategic Planning*, 25.

66. Longstreth, "The City," 162.

67. Pollard, *Britain's Prime*, 245.

68. Tomlinson, *Public Policy*, 34.

managed low exchange rate to enhance export competitiveness, and a “National Investment Bank” to bypass City markets.⁶⁹

EMPOWERED FREE TRADERS AND THEIR SELF-REINFORCING
LIMITED LIABILITY STRATEGY

THE SHIFT IN the epicenter of British economic activity after 1850 from visible exports to invisible exports empowered the domestic supporters of the free trade coalition. By the 1890s, while Britain’s share of world trade in its staple industries was on the wane, it was compensated by the growing importance of invisible income from trade in services, overseas investments, shipping, insurance, and other commercial services.⁷⁰ Free trade supporters prospered from a robust trade activity and export performance (after 1900), record volumes of lending, investment, and capital exports (which reached new heights between 1910 and 1913), and the peace dividends from the reduced cost of empire and forced economies at the War Office and Admiralty.⁷¹ Britain sustained its balance of payments by capturing a large share of the world’s shipping, insurance, returns on investments abroad, and banking and commercial services such as international short-term credits.⁷²

In the 1906 elections, voters and Parliament heeded export oriented commercial, financial, and shipping interests.⁷³ The election resulted in an overwhelming defeat of the Unionist (Conservative Party) who stood for protection, imperial preferences, and higher defense spending, returning to power the free trade Liberal Party. The “People’s Budget” of 1909 reflected another victory. To meet an estimated deficit, the People’s Budget raised direct taxes, with

69. Ingham, *Capitalism Divided*, 80; Cain and Hopkins, *British Imperialism*, 144–45. The bimetallic controversy of the 1880s and 1890s foreshadowed the growing strength of the City of London over industry during the coming decades. The slide in silver prices caused a revaluation of the sterling against silver based currencies making it harder to export to silver standard countries, but easier to buy imports from them. It increased invisible income but harmed those suffering from foreign competition, such as agriculture. One solution, rejected by the City, called for an agreement that would fix a ratio for gold to silver (Cain and Hopkins, *British Imperialism*, 151–52).

70. Kennedy, “Strategy,” 93–94; Jim Tomlinson, *Government and the Enterprise since 1900: The Changing Problem of Efficiency* (Oxford: Clarendon Press, 1994), 41, table 2.3.

71. On the constraining consequence of the expansion of British trade on raising an army, see David M. Rowe, David H. Bearce, and Patrick J. McDonald, “Binding Prometheus: How the 19th Century Expansion of Trade Impeded Britain’s Ability to Raise an Army,” *International Studies Quarterly* 46, no. 4 (December 2002): 529–49.

72. Longstreth, “The City,” 160–64; Pollard, *Britain’s Prime*, 235–58; Cain and Hopkins, *British Imperialism*, 161.

73. Sidney Checkland, *British Public Policy, 1776–1939: An Economic, Social and Political Perspective* (New York: Cambridge University Press, 1983); Friedberg, *The Weary Titan*.

the burden falling on the opposing aristocracy.⁷⁴ Conservatives suffered further defeats in the two elections of 1910 over the issue of tariff reform. Free traders used these distributional gains to attract new supporters by enacting a number of costly social and economic reform programs (1909 Old Age Pensions Act, 1911 National Insurance Act), attractive to the working and middle classes.

To lower the economic, political, and military cost of hegemony, free traders pushed for improved relations with Germany, France, Russia, Japan, and the United States, which further enhanced their domestic position. Economic nationalists especially opposed the entente with France and Russia. They correctly foresaw that the free traders' demand to exempt France from the two-power naval standard would entail a real diminution of naval strength. The City championed the rapprochement with the Czar because it would facilitate financial investments in Russia and protect Britain's commercial and financial interests in Persia. In 1901, free traders pushed for a revision of the Anglo-American Clayton-Bulwer Treaty (1850) to allow the United States unilaterally to construct and defend an isthmian canal. The rationale was that Britain would benefit more than any other country since they estimated that 60 percent of shipping passing through the canal would fly the British flag.⁷⁵ The City of London played a central role in the formation of the Anglo-Japanese (1902) due to the complementarity between Japan's industrialization and the City's export trade of capital goods and services. For British investors, the Anglo-Japanese alliance provided a sense of safety for their investment of Japanese loans and for the emerging Anglo-Japanese financial relationship. Finally, anxious to avoid an international naval race, free traders focused on improving relations with Berlin. London bankers financed Germany's booming industries and its foreign trade. Free traders and the liberal papers also criticized the economic nationalists for exaggerating the naval threat to panic the cabinet.

In pushing for a Limited Liability security strategy, entrenched free traders blocked the military, economic, industrial and financial policies that were necessary to generate the power for a more offensive Continental Commitment, which would have the domestic consequence of empowering the economic nationalist bloc.

74. Emy, "The Impact of Financial Policy," 122–23, 129; Bruce Murray, *The People's Budget of 1909/10: Lloyd George and Liberal Politics* (Oxford: Clarendon Press, 1980), 9–10. What roused the fury of the landed classes (the Conservative opposition and the House of Lords) was the proposal for the valuation of land, with a view to future taxation on profits from increases in land values. These moves were resisted by Conservatives since they derived much of their political support from the landed class and sought to protect its constituents against substantial new taxation.

75. J. A. S. Grenville, "Great Britain and the Isthmian Canal, 1898–1901," *American Historical Review* 61, no. 1 (October 1955): 52.

MILITARY

Free traders opposed early calls for military conscription, a mass army, and participation in joint military offensives on the Western front, pushing for economizing on armaments.⁷⁶ They resisted Anglo-French staff talks (both naval and military) and blocked the entente from becoming an alliance to prevent Britain from getting entangled in a Continental war. The Treasury and conservative financiers warned that Britain's commitment to the continental land war would harm industry, commerce, and agriculture.⁷⁷ The danger was that if too many men were taken for the army and too large a proportion of industry were given over to supplying them, Britain would cripple its exports, thereby collapsing its balance of payments. The ensuing national bankruptcy would make it impossible to support London's financial obligations to its allies to win the war. While the trade unions and the Labour Party rejected conscription for fear it would be used by the Unionists and employer federations to discipline the labor force and to roll back gains made in the previous decade.⁷⁸ Finally, the Liberal Party viewed higher peacetime defense estimates as provocative.

The lynchpin of the free trader's military strategy was the cost-saving reliance on a maritime strategy. Both free traders and economic nationalists recognized that the security of Britain and its empire rested on its possession of a preponderant navy to protect the homeland from invasion and to keep the sea lanes open.⁷⁹ The Territorial Forces would deal with any raids from the Continent. The Ballard Committee (1906–7) recommended that Britain could best bring about the defeat of Germany by means of a naval blockade. They called for: (1) Blockading German ports, the Kiel canal, and the North Sea Coast to strangle the German economy by disrupting its trade which would contribute to a serious economic depression in Germany and thereby force Berlin's defeat; (2) Sweeping the German merchant marine from the seas and bombarding her Baltic coastal towns. To assist them in this plan the Admiralty wanted the War Office to lend them part of the BEF so that they could employ it to seize islands off the German coast for use as advanced destroyer bases and engage in coastal raids; (3) Keeping open Britain's sea lanes of communication to carry on trade

76. Paul Guinn, *British Strategy and Politics: 1914–1918* (Oxford: Clarendon Press, 1965).

77. Alan S. Milward, *The Economic Effects of the Two World Wars on Britain* (London: MacMillan, 1970); G. C. Peden, *The Treasury and British Public Policy, 1906–1959* (Oxford: Oxford University Press, 2000), 74; Hew Strachan, *The First World War* (Oxford: Oxford University Press, 2001), 1071–73.

78. Middlemas, *The Necessities of War*, 72; Leading pacifists in the labour movement, consulted the French socialists who had declared their support for a socialist conference at Stockholm (which never met). See V. H. Rothwell, *British War Aims and Peace Diplomacy, 1914–1918* (Oxford: Clarendon Press, 1971), 98.

79. Williamson, *The Politics of Grand Strategy*.

and to supply its allies with the munitions they need for the land war, while neutral trade would be controlled; and (4) Flushing out and forcing a show-down with the German High Seas Fleet.

Short of a Continental Commitment and a continental-scale army advocated by the General Staff, the War Office wanted the BEF sent to France to cooperate with the left wing of the French army on the Franco-Belgian frontier to deny Germany an early victory (due to France's numerical weakness). The British General Staff hoped that the six divisions of the BEF would be just enough to tip the scales of the land war in the Entente's favor and stop the German advance through Belgium and northern France. However, in 1906, under pressure to economize, the Secretary of State for War lowered the army estimates every year from 1905–6 to 1909–10, and the expenditure on munitions dropped until 1912–13.⁸⁰ With these reductions, the government was reluctant to spend more than it had to on land armaments.

The Liberal and Labor parties, the Radicals (or “troublemakers”), and the “economists” were wrong in arguing that Britain did not need a larger army. There was evidence available that a naval blockade could not force Germany to its knees, but would only produce temporary shortages.⁸¹ The General Staff warned that a German advance through Belgium was inevitable and that a blockade would not be effective in time, and thereby risked France being defeated long before the German economy ground to a halt.⁸² The problem was that Berlin was not very vulnerable to a naval blockade since Germany's economy was too broadly based in Europe and Germany did not rely on overseas trade for its economic survival and raw materials. Instead, Berlin could acquire resources by land victories or through trade via rail with neighboring neutral countries.⁸³ On the latter point, in 1911, a subcommittee warned that it would be necessary to blockade neutrals as well, which might rouse their hostility and bring them into the fray.⁸⁴

80. French, *British Economic and Strategic Planning*, 45.

81. Williamson, *The Politics of Grand Strategy*, 240–43; Steiner, *Britain and the Origins*, 204–5; French, *British Economic and Strategic Planning*, 29. Limited Liability also ignored the dangers of a blockading fleet operating near the German coast. It would face threats from new technologies such as mines, torpedoes, airplanes, and submarines (Guinn, *British Strategy and Politics*, 17). Britain would also need to divert a large portion of the navy to defend its own shores and imports. In 1913, naval games demonstrated that contrary to “blue water advocates” Germany might be able to land a force on British shores much larger than a raiding party (Williamson, *The Politics of Grand Strategy*, 308–9).

82. French, *British Economic and Strategic Planning*, 30.

83. Steiner, *Britain and the Origins*, 202–4.

84. French, *British Economic and Strategic Planning*, 29.

ECONOMY

Concomitantly, free traders blocked calls for a command or militarized economy, pushing for voluntary enlistment and the free market in labor. Free traders intended to intervene only at a few selected points in the economy. By rejecting the raising, outfitting, and dispatching of a Continental size army to France, free traders countered that there was also no need to organize manpower and factories normally devoted to civilian consumption to support the war effort. As late as 1913, free traders blocked a proposal to nationalize the munitions firms.⁸⁵ Threatened free traders feared that total a total-war economy would result in expansion of the state into the private realm, endangering “gentlemanly capitalism” which broadly called for laissez faire values, and especially reliance on market mechanisms and freedom for capital flows.⁸⁶ Economic nationalists routinely criticized the “too individualistic British state” calling for a more highly organized state.⁸⁷ Free traders recognized that national and industrial efficiency would rollback their prewar gains, while empowering the tariff reform movement.

It was widely argued that in a long war Britain had the advantage over Germany because of its greater economic staying power. Yet, free traders resisted the associated physical infrastructure and administrative apparatus necessary to generate the power to fight such a war. In the North Sea, Britain lacked sufficient dockyards and shore bases for protracted operations.⁸⁸ Britain’s naval oriented military industry was not adapted to the maintenance of a large army that required a large number of expendable units for fighting protracted land operations. One danger of limited preparation for mobilizing resources and manpower was that shortages of men, machines, raw materials, and production could result in bottlenecks, slowing Britain’s conversion to a war economy.

INDUSTRY

Free traders and economic nationalists also clashed over the issue of state intervention in industry and industrial mobilization. In relying on the Royal Navy to defend Britain, free traders downplayed the need for a sophisticated apparatus of rapid industrial mobilization and expansion for the army.⁸⁹ Free traders trusted the enterprising nature of British businessmen to mitigate the effects of

85. Pollard, *The Development of the British Economy*, 44.

86. Cain and Hopkins, *British Imperialism*.

87. Newton and Porter, *Modernization Frustrated*, 46.

88. Strachen, *The First World War*.

89. Trebilcock, “War and the Failure,” 160.

the war by securing new markets and raw materials.⁹⁰ Wedded to orthodoxy, the Treasury opposed government interference in private business activities, preferring to rely on the laws of supply and demand (no mechanism for industrial mobilization was to come until 1915, with the Ministry of Munitions). They took a firm stance against prewar state intervention in such areas as war risk insurance, price fixing, railways, national granaries, and a “second gold reserve” because it would be costly and would give these sectors an unfair advantage while other sectors were harmed by the war. Ship owners called for a national guarantee for the war risks of shipping under which the state would reimburse ship owners for the increased cost of war risk insurance in wartime. The concern was that owners would either pass the cost to consumers, transfer ships to neutral flags, or keep them in port for the duration of the war. There were also early calls for the government to assume overall control of the railways to ensure that the best use was made of them in the national interest. In both cases the Treasury resisted state intervention, countering that it would constitute a state subsidy that would provide owners and shareholders with an unfair advantage and create an invitation to defraud the government. It was argued that market forces due to food prices would encourage ship owners to send their vessels to sea.⁹¹ For the same reason, the Treasury was reluctant to subsidize foreign purchasing of food and raw materials. While the Unionist Party and the National Agricultural Union pushed for national granaries to be established by the government, free traders saw it as a backdoor for tariff reform. The Treasury opposed a second gold reserve to increase cash reserves because it would establish a false sense of security.

Free traders also opposed the formation of a shadow state armament industry and national shell factories. They were concerned that it would expand the scope of the state, even though the Boer War demonstrated the deficiency of the existing private and state ordnance factories (in 1915, Britain suffered a similar shortage of shells and fuses).⁹² Also, new national factories would not be bound by the restrictive practices of older shops, benefiting employers.⁹³ Finally, eager to reduce expenditure on the ordnance factories, spending dropped from 1905–6 until 1912–13.⁹⁴ This meant that machinery and manpower was reduced and spare capacity, reserve machinery, and plants aban-

90. French, *British Economic and Strategic Planning*, 64.

91. *Ibid.*, 66.

92. According to Trebilcock (“War and the Failure,” 150), the Boer War “demonstrated the mistakes and the lack of planning that one might expect from any free enterprise industrial system.”

93. Strachen, *The First World War*, 1080.

94. French, *British Economic and Strategic Planning*, 45.

done.⁹⁵ Private manufacturers (Vickers and Armstrong) turned much of its machinery over to other production. In the event of rapid entente defeats or losses, neglected private and government ordinance factories with no centralized system of supply could not expand production in the very short term.

FINANCE

Finally, free traders resisted high peace time defense estimates because they would require high taxes and feared that sooner or later protective tariffs would have to be introduced, breaching the edifice of free trade. Since free trade precluded the government from placing a large share of the tax burden on commerce, revenue could only be raised through taxes. A continental commitment would further lead to a balance of payment difficulty, based on the incapacity to finance the high level of imports for arming and equipping a large standing army.

Free traders also feared that high taxes might harm trade and industry, and that the expanding government budget and increasing taxes would crowd out investment. They were also concerned with the need to minimize the burden of debt in order to maintain the credit of the state and its ability to borrow at low interest. While many Unionists saw a return to protection as the only escape, such a solution was rejected by the Liberal Party and the Treasury. Finally, the Treasury pushed for raising funds in a manner that would minimize inflation.

In summary, the prospect of German hegemony in Europe was daunting. Yet, free traders resisted a set of financial, economic, industrial, and military policies that would have generated the necessary power to counter this challenge. Entrenched free traders were not seeking preponderance for Britain among the Continental powers, but to check the ascendance of their domestic opponents. Knowing that a Continental security strategy would empower economic nationalists who would push for a big army and navy, national service, tariff reform, trade protection, empire unity, and national efficiency and industrial planning, threatened free traders lobbied for a self-reinforcing Limited Liability strategy. While such a strategy moderated the demise of the free trade faction, it shortchanged Britain's war preparedness.

EMPOWERED ECONOMIC NATIONALISTS AND THEIR SELF-REINFORCING CONTINENTAL STRATEGY

95. Trebilcock, "War and the Failure," 152.

OFFENSIVE REALISM ignores the internal politics of war and war preparation, and the suboptimality that it can cause. National and societal actors and interest groups know that how the state prepares for and fights a war will create domestic winners and losers. The beneficiaries from the war related financial, economic, industrial, and military policies will push to accelerate the internal redistribution of political power while the losers will lobby to restrain it. Concerned for the distributional consequence of the state's security strategy, economic nationalists will push for an offensive security strategy which will have the internal result of benefiting their constituents. Economic nationalists will resist a defensive security strategy, even if this is in the national interest, because it will empower the opposing free trade faction. Strengthened free traders will lobby for limited state intervention in the economy, reliance on low-cost defensive arrangements, fiscal and monetary orthodoxy, and negotiated settlement of conflicts.

Free traders will push for a defensive security strategy which will have the domestic result of enhancing their supporters. Free traders will oppose an offensive security strategy because it will empower members of the economic nationalist bloc who will advocate for an offensive military posture, trade protection, a total-war economy, state encroachment and war planning, and closer economic and military ties to the empire or occupied territories. One danger is that the threatened coalition will lobby for a self-reinforcing security strategy that will advance its coalitional interest, but risks damaging the national interest. The entrenched coalition might resist a strategy because it will harm their faction's interests, even if it is in the nation's interests.

In the decade prior to the First World War, economic nationalists and free traders in Britain clashed over the orientation of the state's security strategy. Entrenched free traders pursued a self-reinforcing Limited Liability strategy that rejected conscription, industrial mobilization, and a Continental commitment. Their concern was that mobilization for a Continental commitment would permanently extinguish "free trade individualism" and "gentlemanly" financial capitalism in Britain, resulting in state regulation and management of the economy, thereby curbing the influence of traditional finance and the City of London. By relying on a naval blockade, there was no reason to divert resources from civilian production, to send a large army to the Continent, or to set up the administrative apparatus to run the war, control essential war resources (raw material, skilled labor, or machine tools), or create a unified central planning staff to coordinate the work of various government offices. While a defensive strategy would cause less harm to their position, it risked the national interest, especially if France and the Low Countries were quickly overrun since Britain lacked military and industrial preparedness for a land war.

Early in the war free traders were still strong enough to block proposals to nationalize the munitions firms, for military and industrial conscription, and for participation in military offensives on the Western front. By 1916, free traders reluctantly accepted increased state intervention in the economy, heightened military spending, and protection for industry and agriculture, thereby ratcheting up the strength of the members of the economic nationalist coalition, while rolling back merchant banking, fiscal conservatives, and international financial services. As the old system perished, it was replaced by a strong preference for state intervention, the formation of trade associations and combinations, and trade protection. By 1918, two-thirds of the economy and nine-tenths of imports were subject to direction by bodies authorized by the government.⁹⁶ Numerous ad hoc commissions and boards were set up to regulate and coordinate business such as the Ministry of Munitions, Coal Controller, and Shipping Controller. Regulation and management of the economy meant intervention in the conduct of industrial firms, coordination of railways, the manipulation of investment into useful enterprises, the ban on specific exports, heavy duties to discourage the misuse of limited shipping cargo space (McKenna duties), and currency controls to prevent the loss of foreign exchange. Other state schemes included the central allocation of resources and price fixing of munitions and food, import licensing, railroads, and shipping insurance. As well, the state intentionally encouraged the development of peak industrial organizations and big business in Britain, and the cooperation between capital and labor. Empowered economic nationalists used the distributional gains from these national policies to push to escalate Britain's involvement from a Limited Liability strategy to a Continental strategy, calling for conscription of a mass army, total warfare and military offensives on the Western front, a knock-out blow against Germany, and imperial preferences.⁹⁷ As one author concludes, "The policies of 1916—war, military, and domestic—had by the end of the year become extremist, because they were imposed by extremist."⁹⁸

96. Newton and Porter, *Modernization Frustrated*, 36; Cain and Hopkins, *British Imperialism*, 49.

97. French, *British Strategy*.

98. Guinn, *British Strategy and Politics*, 180.