

# Rise and Decline of Beliefs and Empires

by Anne Emerson (*Economist*), January 17, 2024

This essay offers my personal experiences with empires. It is intended as a warning. Turning behemoths around takes time. If we wish to avoid trouble in paradise (is our world really paradise?), we might plan to respond deliberately and proactively, before distant trouble reaches our door and we respond reactively.

The reason I ask to be heard is that, more by luck than design, I can explain how our “capitalist” (behemoth) world generates inequality over the long run, and how to turn it around. But I do not start with the explanation – that particular effort has gone nowhere, since before the pandemic. Few economic analysts today are historians of Empire, and those that are may not be theorists of the dual economy. So, I start instead with my personal knowledge of Empire, and tack on a little economics at the end!

There have been three Empires in my life, partly from book-learning and partly from experience – the Islamic Empire, the British Empire, and U.S. Hegemony. For non-historians, here are a few typical issues: A major challenge facing governments is how to adapt, or change the rules, once the rules have been established. One might have to adapt for several reasons – for example, because times change (machines get more sophisticated; weapons or warfare get more sophisticated, and these new things must be incorporated into society); or, perhaps, beliefs change (slavery is no longer acceptable, or “equality” becomes important, where it was not, before); or, perhaps, the rules don’t work as intended (a social safety-net encourages free-loaders); or perhaps the global balance of power changes.

The present discussion starts with the influential ideas of a professor who lived and worked close to the nation’s capital (Washington, D.C.) in the 1970s and 1980s. It follows with a summary of the rise and fall of the Islamic Empire; then with my personal experiences during the last days of the British Empire; then finally, with U.S. hegemony and the question of where the U.S. and the world might go from here.

*Mancur Olson – The Rise and Decline of Nations – Yale University Press, 1984*

I was the teaching assistant assigned to Professor Olson in the spring semester of 1979 at the University of Maryland, as he presented ideas that went into the above-mentioned book to his unsuspecting students.

I did not inquire why the professor for a class on the history of the North Atlantic Alliance was changed AFTER both the textbook and the teaching assistant (me) had been assigned. Professor Olson did not use the textbook – he presented his own ideas, and the students were grateful to me for organizing them into three main themes, in a review session before the final exam. With hindsight, I would want to question the person who approved this sudden change of professor; and I would want to ask him other questions about his apparent special interest in my background, as both Brit and Arabist.

Unfortunately, he has passed away and those questions remain unanswered; especially, why did he change his mind about championing me? Perhaps he was getting flak from more-conservative faculty, because I was not performing like the unmarried young hotshots. More likely, he began to suspect he was the wrong advisor for me, the day he invited me to “talk about it” (some trouble that was upsetting me) and I did not respond.

Back to Professor Olson. His claim to fame was his doctoral dissertation – the Logic of Collective Action – on which he built an exciting career. He reasoned that, the greater the number of people involved with a problem, the harder it is to get any one of them to take ownership of it. Consider homeowners living around a polluted lake. If there are only one or two homeowners, they will try to get the lake cleaned on their own initiative. If there are many, they will each think their part is small and wait for others to take initiative to clean the lake.

Olson used this reasoning to argue, further, that societies develop rules and institutions, which then “ossify” – that is, a culture or society gets stuck in its ways, and individuals’ incentives to change are small. A major disruption – war or revolution – is what gets the old ways thrown out and new ones brought in. Olson gathered data to show that innovation and growth are measurably higher after the old infrastructure is destroyed and a new one has to be built. (For example, he suggested, Germany after WWII – having been heavily bombed and its leadership disgraced – developed a more-vibrant postwar economy than did other European countries.)

### *The Islamic Empire and the Rise and Decline of Empires*

Mr. Albert Hourani was a historian of the Middle East – one of the few professors so well-regarded that he was not required to have a Ph.D. in order to teach at the University of Oxford. He and I explored some themes underlying Modern Middle Eastern history (until about 1952) – including the importance of detail and personalities in the recording of history; balance of power, conflicts of interest, unlikely partnerships; beliefs, and change. In other classes, I had also learned the general outline of earlier Middle Eastern History.

Here is a brief summary, for those not familiar with the Islamic Empire. Early Muslims developed a society and beliefs that caught on and spread rapidly. The official narrative is that neighboring countries were weak and ripe for conquest. Anyhow, early Muslim society changed very quickly from a small band of outcasts fighting for survival to an Empire that needed to be governed and administered. This was managed sufficiently successfully that the Empire lasted, in various forms (according to Oxford Reference) from 634 to 1922, when the last Ottoman Emperor was sent into exile. (The Mughal – Indian – empire lasted till 1858; yet neither the Ottomans nor the Mughals were Arabs. The original Arab flavor of the early Muslim Empire collapsed much sooner, perhaps around the eleventh or twelfth centuries C.E.)

Officially, most of the early Muslim Empire was a Caliphate. That is, it was ruled by a religious (Muslim) leader. The Caliph was chosen; his office was not inherited. However, that purest form of the Caliphate did not last very long – many Muslim regimes wanted to keep leadership in the family, and some wanted to find leaders among the Prophet Muhammad’s descendants. Serving under the Caliph in the governing hierarchy were various other types of leaders – for example, administrators, legal experts, Mosque leaders.

According to Western scholars, Muslim leaders were creative in interpreting the guiding rules of society. If I picture myself as a community leader wanting the faithful to behave in a certain way, I recognize an incentive to tell them that such-and-such behavior was encouraged by the Prophet Muhammad, or that it may be found in the Qur’an. Such practices are quite understandable. Things change; times change; societies need cohesion.

That is, over time a society’s rules lose their original relationship to the initial set-up. It’s a bit like a game of Telephone – the original message gets changed a little, each time it is passed on. This is true of any society and any administration. In the Islamic World, something changed after Muslim legal scholars were forbidden to make new “interpretations” of Islamic Law. (Western scholars date this event to around the beginning of the fourth century of the Hijra, or about 900 C.E.) Adaptability is necessary, as the world changes; when Muslim legal scholars were told there could be no more change in the rules (no more interpretation), we could consider it an example of Olson’s “ossification,” and perhaps the beginning of the end of what Muhammad began. Islam and Empire continued, but in other forms, adopted by other cultures.

### *The British Empire and the Rise and Decline of Beliefs*

English history, as I learned it, did not stress the Empire. It was much more about English society – Celts, Angles, Saxons, Jutes, Vikings, Romans, Normans, Kings, Queens, rule of law; English civil wars, the church, etc., so that the Islamic Empire is the Empire about which I learned the most. Yet, I hope I know enough to suggest that we can see the historical path of a civilization through various lenses – whether it is the rules and institutions that change (Olson, Adam Smith), or the relationship between ruler and ruled over several

generations (Ibn Khaldun, de Tocqueville), or what people believe in (philosophy, religion), or the relative prevalence of scientific and technological devices. In the history of a great civilization, there is usually a time of cultural youth, followed by stability, followed eventually by old age in the form of “decline and fall.”

Let us turn to the second Empire in my life, the British Empire. The second world war saw the beginning of the end of Britain’s supremacy across much of the world. Baby boomers (like me) in England grew up in an era of lost empire and declining grandeur. Some of my older teachers, approaching retirement, remembered a different era. The women said they could travel in Europe, and their word was considered good when, for example, they did not have enough money for a hotel room. They would make a promise and send the money later.

Those teachers said that the English were widely respected. The British Empire began around the time of Elizabeth I, perhaps with roots in naval expertise because the UK is an island nation, and grew along with a sense of moral probity and technological superiority, which English people were eager to spread around the world. There were English missionaries spreading Christianity; English business owners (and merchant ship owners) doing trade across the world; English books teaching scientific principles; English schools glorifying the rational, scientific, logical, and just.

But that was not my world. After WWII, many British Colonies gained independence, one by one; I can remember when one pound sterling was worth \$2.40. The pound’s exchange rate has declined pretty steadily since then, and England experienced economic woes after trading partners diversified and the government had less money to spend. I was told of atrocities in the administration of Empire, and that the British authorities were not pleasant during the partition of India. Poorer people and countries today think that Colonial rulers benefited much from colonies, while the poorer country’s residents benefited little.

I offer several take-aways from this personal experience – first, a dominant culture becomes arrogant; its government loses touch with those governed; citizens become less trusting and less law-abiding as they lose faith in leaders; “satellite nations” fall away. Second, expensive wars (two world wars in the last century, very costly to the UK, even though the enemy represented Evil), financed by debt, reduce a government’s credit-worthiness. The British Empire was greatly weakened, financially, after WWII.

Third (and related), as international belief in a government’s credit-worthiness declines, so its currency can lose reserve-currency status (see the paragraph above, about the declining value of the pound sterling). When the world stops buying and storing a country’s currency, either as a way to hold value in uncertain times, or because it is widely accepted as payment in trade, then that currency loses value; foreign goods become more expensive than before, and both residents and government can afford fewer foreign goods. Loss of credit-worthiness generates great change in a country’s fortunes, financial and otherwise – in my opinion.

### *U.S. Hegemony*

We do not speak of a U.S. Empire; only of spheres of influence or hegemony. Yet, the U.S. influences much of the world, partly through its control of the SWIFT money-transfer apparatus, and partly by persuasively promoting its interests and values. Much of the global economy is run on a political mindset that advocates Free Trade, free movement of Capital (but not Labor, especially not low-paid labor), Meritocracy (via education), Democracy, and the pursuit of growth and technological innovation.

The U.S. government makes things difficult for regimes that do not operate as the U.S. might prefer. For example, it places economic sanctions on Russia and on North Korea. And, it is currently (January 2024) at risk of cooperating in the escalation of wars in the Middle East, Ukraine, and potentially in Taiwan, in pursuit of U.S. interests, according to announcements from the Federal government.

Since its ascendance over the U.K. as a global superpower, the U.S. has tried to build, or encourage other countries to build, institutional systems having parallels with the way the system works here in the U.S. These efforts have not always been successful. Other countries already have systems in place, and it is not always easy to destroy them, or to build a democracy instead.

As some poor people remain marginalized in a world of increasing wealth, so they may feel shut out, ignored, and unfairly treated. Some may struggle to get food on the table, or feel obliged to choose between food and medicine. Some may turn to crime, and their neighborhoods become dangerous. We could wish to teach them better behavior, but if crime is both easier and more advantageous for them than conformity to the law, we will have little success. And, desperate people turn to charismatic despots in hope of salvation, so the story goes. Yet, I think, salvation rarely comes that way.

I see some parallels with what happened in the U.K in the 20<sup>th</sup> century – hearsay and the media suggest that poverty and desperation are increasing; there is dissatisfaction with leaders in some quarters, but leaders appear unable to understand it; leaders' arrogance finds war acceptable; easy victims (immigrants or others) are scapegoated; government overspends, going into debt; a debt crisis threatens to occur.

*Where do we go from here?*

Why do I think I have something to add? Why add another voice to the crowd warning of trouble ahead? If there is nothing to be done (per the Logic of Collective Action – no one person can turn this around), wouldn't many of us prefer to stick our heads in the sand and let our feet dance our lives away, until the inevitable occurs, or, by some miracle, does not?

The reason I ask to be heard is that, more by luck than design, I have created an economic model that explains how our "capitalist" world has generated income inequality over the long run. It also offers a way to reverse the process that brought us here! Increasing global inequality is closely related to increases in the global money supply. I propose that we tighten the money supply way more than the Fed and other central banks might wish; central banks have the tools to do it, while a proliferation of new laws doesn't seem to work. But we cannot begin to consider such a solution, nor find a way to make it work, if no-one will explore it. Even now, so far as I know, the experts are not doing that.

The U.S. appears to be developing community dysfunction (crime, addiction, loneliness, physical ill-health). I have explained elsewhere that I do not think the whole economy moves as one; there are at least two growth paths – one upward and one stagnating. *Yet, even within the past week, President Biden does not appear to understand that aggregate data (much job-creation, for example, and declining inflation) do not tell the whole story. What if most of the jobs being created are dead-end, minimum-wage jobs, and even 3% inflation hurts people in those kinds of jobs? In particular, using percentages to imply or suggest that low wages can start to buy more than higher wages, in a "band-aid-sized" tight-money world, is ridiculous! Any mathematician can tell you that 3% of \$15 (= 45cents) is not as much as 1% of \$200 (= \$2).*

*We need to direct more of the economy's money to people and industries in the growth path that stagnates, before those sectors and regions contain enough dissatisfied residents to create a revolution. Likewise, we need to address the international situation that mires poor countries in debt, before more of them start to behave like North Korea. Similarly, we need to address the debt situation here in the U.S., before the dollar loses reserve currency status, and with it, the cushion that this status gives to financial markets here. (And, we need to hope that a more-equal society uses its lesser resources wisely; perhaps with a renewed educational focus on good judgment.) I propose that central banks all over the world wind back Fractional Reserve Banking, as gently but relentlessly as may be needed, in order to end the institutionalization of debt financing. At least, let's discuss it!*

*Current macro-models do not offer a way to direct more of the system's money into poorer regions. (Call it "ossification" in institutionalized thoughts and beliefs!) My micro-model with money does. If you are interested, please go to the "Essays" page on my website. Thank you, and I hope it helps!*