

America and Europe: Conflict and Power

economic power including manufacturing and industrial capacity vis-à-vis their competitors. Industrial capacity and manufacturing prowess is for many nations a matter of national security through the control of important primary and secondary industry, an ability to demonstrate economic power, and a means to build and sustain employment.

FIGURE 3: INDUSTRIAL AND MANUFACTURING OUTPUT⁷⁸

Rank	Industrial Output—In US\$ Billion		Manufacturing Output—In US\$ Billion	
1	United States	2613	United States	1393
2	Japan	1582	Japan	1055
3	Germany	583	Germany	437
4	China	486	China	377
5	UK	343	France	287
6	France	324	UK	273
7	Italy	299	Italy	218
8	Brazil	236	Brazil	175
9	South Korea	179	Russia	132
10	Spain	157	South Korea	122

Secondly, realism or mercantilism is weak in accounting for change, where the sources of change lie in the world economy or in the domestic structures of states.⁷⁹ In this regard mercantilism can be interpreted as a theory of state building wherein the interests of particular producer groups influence national policy. This is especially true in the advanced economies when we view the interests of labour within the state system. Land and capital are not as nationalistic as labour.⁸⁰ Trade protectionism and other nationalist policies result from attempts by one vested labour interest to increase their own wealth maximization.⁸¹ However realism does not offer a model to understand the change in the interests or power of these domestic actors and assumes a rather static view of domestic relations, since the state and not the individual is the unit under study. Mercantilists assume that the state is uniform. However as liberals point out a state is composed of many competing actors and interest groups.⁸²

Thirdly realism discounts the moral and political suasion of international groups, focusing almost exclusively on the nation state and statist self interest. While it is a truism that self-interest, security and wealth maximization policies drive forward national policy making, states are constrained by international governmental and non-governmental organisations. States oftentimes have a vested interest in promoting or aiding these groups to help solve domain specific issues wherein cross border problems are resolved using specific political and technocratic resources. It is difficult to unilaterally ignore these forums, interest groups and the collection of other actors in the pursuit of national interest. In fact selfish national interest would seem to preclude such autarchic behaviour. Functional inter-governmentalism, trans-national political trade offs, and alliance building all conspire to shape in part domestic policy setting. Realism is very weak in assessing and accounting for such supra-national pressures.⁸³

LIBERALISM AND STATE MARKET TENSION

Liberalism was a 19th century reaction against mercantilism. It is a set of political and economic principles that view international relations as a potential source of progress and change. In general liberals take a positive view of human nature and modernization. Liberals place great faith in human rationality and reason.⁸⁴ Such a view underpins liberal economic theory, which is committed to free markets and minimized state intervention. Liberal political theory is committed to individual equality and liberty.⁸⁵ Domestically and politically the power of the liberal constitutional state is limited by its democratic accountability to its citizens, the need to respect the demands of the economic marketplace and the rule of law. Liberals believe that these ideals promote stability and peace, and must be mirrored in international relations.⁸⁶

Liberals advocate that the creation of wealth is best left to the market: "(government has) only three duties . . . first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as

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possible, every member of the society from the injustice or oppression . . . and thirdly, the duty of erecting and maintaining certain public works and certain public institutions . . .”⁸⁷ Liberals believe that mercantilism leads to the reduction of international wealth as trade barriers increase and trade conflict becomes commonplace.⁸⁸ For liberals trade is not a zero sum game of winners and losers and that tariff and non-tariff barriers harm the domestic society. Economic struggles, according to liberals, are not necessarily destined to be only clashes of national interests and that protectionist policies are not the only policies open to governments.

These analysts contend that there exists ‘comparative advantage theory’, in which nation-states are endowed with certain indigenous strengths, which can allow them to develop their own industries. This has become the underlying economic rationale for government’s to begin to loosen and change mercantilist policy. Open trade and liberal economics promote the increase of the general wealth of the participants, even though these benefits might be distributed unevenly between the actors involved.⁸⁹ For liberals all forms of economic co-operation are committed to the market and the price mechanism as the most efficient means for organizing domestic and international economic relations.⁹⁰ Liberalism assumes that a market arises naturally in order to satisfy human needs and that it can function with its own internal logic or invisible hand.⁹¹ As such liberalism’s unit of study is the individual consumer. Individuals will attempt to maximize personal gain at the lowest costs to themselves. This assumption is based on the laws of demand, supply and equilibrium.⁹²

The law of demand stipulates that people will buy more of a good if the relative price falls and less if it rises and people will tend to buy more of a good if their incomes are relatively higher, and less as it falls. On the supply side liberal economics assumes that individuals will pursue their interests in a world of scarcity. Every decision will therefore involve an opportunity cost or a trade off among alternative uses of available resources.⁹³ Rational individual choice will produce a market system where there are increases in economic efficiency, maximized economic growth and improved human welfare. The