

primary purpose of economic activity is to benefit consumers. The defence of free trade rests primarily on the notion that more trade will lead to a broader range of goods and services at acceptable prices leading to more choice and less costs for consumers.<sup>94</sup>

Another basic assumption in liberal economics is that a market economy will, over the long term, exhibit equilibrium and inherent stability. If a market is thrown into flux by a change in demand, tastes or technologies for example, the price mechanism will respond to put the market back into balance between suppliers and consumers. Prices and quantities will once again balance each other.<sup>95</sup> A change in the supply or demand of a good will elicit a corresponding change in the price. Government intervention at any level, which distorts this price setting, disrupts the interaction of demand and supply leading to inefficiencies and higher consumer prices. Equilibrium will not be achieved with government intervention and economic dislocation and the protection of special interests.

With the above laws as a basis, liberals believe that trade and economic intercourse will result in mutual benefits between nations, as expanding and interrelated economic activities lead to closer interstate cooperation. Whereas politics tend to divide nations, economics should integrate them. Therefore for liberals, politics and economics should be separated. In terms of economics the state has only a limited role in economic transactions. The main state-market tension in the context of liberal theory is between a competitive market where the terms of goods and services exchange are dictated by the considerations of supply and demand against that of the state.<sup>96</sup> As with realism the interpretation of these basic liberal concepts gives rise to various forms of liberalism each placing a different emphasis on aspects of general liberal theory.

An important liberal variant is the 'interdependence or functionalist' group, which argues that a high level of labour division in the international economy increases interdependence between states that will reduce violence.<sup>97</sup> Such interdependence implies that states are not coherent units, military force is less useful as a

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policy option, economic and institutional institutions are vital and welfare not war is the prime concern of the state. Institutional liberals place more emphasis on trans-national structures as opposed to labour division, believing that improved information flows and forums will militate against inter-nation conflict. In such a setting international groups allow nation states to monitor others' compliance and create credible commitments.<sup>98</sup>

Contrasting the functionalists are those who support 'sociological liberalism' which emphasizes pluralism and the dynamics of non-national actors. This variety of liberalism focuses on transnational actors and the cooperative and supportive nature of inter-nation relationships.<sup>99</sup> In this regard sociological liberals agree with 'republican liberals' who claim that liberal democracies are more peaceful than other political systems. They believe that democracies do not fight each other due to the nature of cross border interests, economic ties and philosophical similarity.<sup>100</sup> According to sociological and republican liberals a common moral foundation, democratic norms of conflict resolution and interdependent trade ties mitigate inter-nation conflict.<sup>101</sup>

In general it can be stated that these liberal groups and their sub variants believe that open trade and discourse will allow for a potentially progressive future. All liberal theories support the limitation of government power and the capacity of individual rational self-interest to drive forward economic and societal development. What liberal theory must struggle to prove is why in the recent past given that liberal conditions have existed for more than 3 centuries and that integration has intensified in the modern era, do wars and violence still occur? Liberal theory must also disprove analysts who view as impermanent the spread of liberal institutions. There is historically no evidence to suggest that such liberal institutions are impermeable to change or that liberalism will not revert to non-democratic structures.<sup>102</sup> Liberals counter by stating that the IPE has fundamentally shifted and that complex interdependence between states limits international anarchy and national self-interest.<sup>103</sup>

## LIBERALISM AND GLOBALIZATION— REGIONALISM TENSION

When discussing the formation of regions and the effects of globalization many sources and liberal theorists believe that liberalism promotes regionalism and globalization.<sup>104</sup> The globalization of economic activity is based upon the liberal vision of economic agents, and transnational firms, indifferent to political boundaries, competing in global markets, and satisfying the homogenizing tastes of international consumers.<sup>105</sup> The liberal concept of transnationalization can also be applied at the regional level. Therefore most liberals would argue that even if the world devolves into separate blocs, the necessity of state and regional interaction would mean that regionalism would need to support and express the globalization of economic activity. In much the same way as liberal economics provides a base economic partnership between states within a regional setting, so too does it provide a base agreement between blocs.

The liberal strands of thought explaining the regional—global tension are functionalism and interdependence (or neo liberal institutionalism).<sup>106</sup> Functionalism identifies that non-state actors can play a major role in regional ties between states. These non-state actors whether they are economic, political or social, will bind states together through various agreements. These institutions will oversee these various agreements to ensure that the member states do not cheat. As states become used to adhering to these international bodies, there will be spill over effects into other areas promoting further cooperation between the states.<sup>107</sup>

According to the neo-functionalists there are two types of spill over at the regional level. The first is where the small initial steps down the integrationist path would create new problems that could only be solved by further cooperation. This would force governments to expand cooperative endeavours into further areas.<sup>108</sup> Pressure groups would demand further integration to capture economic benefits. Secondly political spill over would occur instigated by the self-reinforcing process of institutional building. In this view the management of complex interdependences would necessitate the