

interdependence and inter-national cooperative bodies.¹²⁸ At least within the West an inter-state war is deemed as increasingly unlikely though not impossible.

WEAKNESSES OF LIBERALISM

A pure liberal explanation of the IPE has some major weaknesses giving rise to theories that posit state intervention. A basic criticism of economic liberalism lies in its assumption that the actors are rational and that there exists truly competitive markets. Exchange is however, seldom free or truly competitive.¹²⁹ Liberals would respond that these are simplifying assumptions used to allow predictive modeling in the determination of economic policy.¹³⁰ As such the outcome of these policies is more important than the alleged reality of the model. Even so liberal economics can be criticized in a few important areas.

First, in the liberal model of an economy, the process of uneven sectoral growth and change takes place smoothly. In such an economy sectors on the steep growth curve, grow at a rapid rate and absorb the productive resources (labour, capital, and land) that are released from declining sectors of the economy increasing total economic welfare.¹³¹ In reality this change is seldom smooth. Conflict will erupt over resources and markets between expanding and declining sectors. The state will intercede to apportion these resources to ensure that economic development of key sectors supports state political, economic and social goals.

Second, liberal's focus on the interdependence and the cooperation that stems from the increase in trade between nations. The rapid increase in trade since 1950 and the end of this century means that world exports, as % of GNP is now at the same level or a little higher than during the 1880-1910 era. Yet two World Wars followed this high mark of international interdependence. Neo-Realists maintain that history is 'the same damn things over and over again'.¹³² Intense international economic activity is not new, nor is it necessarily sufficient to prevent the ongoing international struggle for power and wealth.¹³³

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FIGURE 4: TRADE¹³⁴

Rank	Exports as % of World Total		Trade as a % of GDP	
	1	EU	17	Liberia
2	USA	15	Malaysia	92
3	Germany	9	Singapore	79
4	Japan	8	Swaziland	72
5	UK	7	UAE	65
6	France	6	Panama	63
7	Italy	5	Malta	61
8	Netherlands	3	Belgium	61
9	Canada	3	Lesotho	61
10	Belgium/Luxem.	3	Ireland	59
			USA	10
			EU	13
			Japan	8

Though trade is obviously important it is more vital for smaller nations. Larger nations have only about 10-25 % of their economies dependent on imports and exports. As such domestic politics and pressures account for much of the international orientation of larger economic units. There is little historical evidence that 'liberal' nations are peace loving, or more prone to use economic fora to resolve conflict over the longer term due to trade ties and economic integration. Britain and Germany for example before World War I were each other's largest trading partners. There simply is not enough deep financial and economic integration to warrant such an assumption.

The same weakness can be directed at the liberal ideal of international institutions. Whilst states do co-operate through these institutions they do so on the basis of self-interest. Power politics still dominates and these forums are nothing more than stages on which power is unfolded and played out. As such these institutions are controlled and manipulated by the states, which have power.¹³⁵ Anarchy, the basis of much realistic thought, is still prevalent and still engenders insecurity, and is still the basis of power and conflict between nations. Liberals ignore relative gains from cooperation, '... in doing so, they fail to identify a major source of state inhibitions about international cooperation'.¹³⁶ Liberalism therefore has problems in providing us with a comprehensive approach to the IPE.

Liberals tend to regard economics as some sort of 'master science'. It artificially separates the economy from other aspects of society and accepts the given socio-political framework as a static framework.¹³⁷ All resources within this framework—individuals, groups, societies, and institutions—are accepted as static.

In the liberal world, individuals are rational and equal, living in a world free from political boundaries and social constraints.¹³⁸ In reality the socio-political framework of nations and other actors is not static, and neither are individuals that rational and equal, nor is information at all times fluid and transparent. Political and non-economic factors and actors can profoundly affect the terms of economic exchange. Liberalism tends to neglect both the effects of non-economic factors on exchange and the effects of exchange on political actors.¹³⁹ Liberals assume that the socio-political framework changes slowly, in response to price signals. The crucial and changeable variables of technological, political and social progress are viewed as beyond the realm of economic analysis. It assumes that these factors are largely constants in the economic equation.¹⁴⁰ However politics and variables within the balance of power, which dictate nation state rankings are very real catalysts in political and economic policy choice.

SOCIALISM AND STATE MARKET TENSION

In response to liberalism Marx and Engels in the 19th century developed a paradigm to explain the rise of global capitalism. In the capitalist system the inherent class conflicts, would be resolved by instituting equality in social and economic activity. Such an approach believes that socialism in the form of equal sharing of resources and the predominance in society of the worker would create a more advanced and humane society than that of capitalism.¹⁴¹ The political economy of marxism and its modern day socialist variant takes the zero-sum argument of mercantilism and applies it to inter-state relations. Socialists and marxists agree with mercantilists that politics and economics are closely intertwined. However both socialists and marxists put economics first and politics second while mercantilists subordinate economics to political concerns.¹⁴²