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Why 'The Rise and Fall of the Great Powers' was wrong

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Abstract. In 1987, Paul Kennedy predicted in his best-selling book, *The Rise and Fall of the Great Powers*, that the Pacific region, especially Japan and China, would rise in power, while the then Soviet Union, the United States and Europe would decline in power. Except for Russia, his predictions have not fared well. Why? His realist model of international politics ignored the role of national identities. National identities involve domestic institutions and policies that motivate citizens to create and use wealth and power. Nations compete through domestic reforms as well as international military and economic rivalries. Domestic changes in the United States and Europe revitalized American and European power, while delays in domestic reforms doomed Soviet/Russian power and dramatically slowed Japanese and Asian growth.

In 1987, Paul Kennedy predicted in his best-selling book, *The Rise and Fall of the Great Powers*, that 'the global productive balances … have already begun to tilt in certain directions: away from Russia and the United States, away also from the EEC, to Japan and China'. 'The rise of the Pacific region … is likely to continue', he argued, while the two superpowers would succumb to 'military overstretch' due to 'the spiraling cost of the arms race' and related decline in economic investment and growth. 'Europe', he confessed, 'remains an enigma'; but it too, he concluded, was in relative decline and, unless it unified (not the most 'plausible' outcome, according to Kennedy), would face debilitating problems.[1]

Kennedy's predictions have not fared well over the past decade and more. Russia did indeed continue to decline, but not for the reasons Kennedy argued. Russia kept sinking even after it shed the burdens of the Soviet empire and military interventions in Afghanistan and elsewhere. The other powers that Kennedy predicted would decline did not decline at all. The United States experienced a spectacular rebirth, not only 'winning' the Cold War but becoming once again the dominant economic power in the world.[2] The European Union (EU) also surged ahead to create a single market and common currency and, despite an initially weak euro, enjoyed steady growth at the end of the 1990s. By contrast, the Pacific region, which Kennedy predicted would rise in relative power, floundered. Japan hit a big pothole in the

* A much longer version will be appearing in my forthcoming book *At Home Abroad: Identity and Power in American Foreign Policy* (Ithaca, NY: Cornell Press, 2002).

[1] See Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987). Quotations are from respectively, the Epilogue, p. 538 and chapter 8, pp. 441, 442 and 488.

[2] For other accounts, written about the same time as Kennedy's book, that predicted America's rebound, see my *The Myth of America's Decline: Leading the World Economy into the 1990s* (New York: Oxford University Press, 1990); and Joseph S. Nye, Jr., *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990).

early 1990s and is still struggling at the beginning of the new millennium to crawl out of a decade-long economic slump. China slowed down to 3–4 per cent annual growth (after subtracting excess inventories) from a previous level of 10–12 per cent growth and faces potentially crippling problems of unemployment, corruption, and social unrest. The rest of Asia suffered a severe financial crisis in 1997–98 and began a long process of restructuring from export-led manufacturing growth to information-oriented service activities, including, in particular, a more competitive domestic banking and financial industry. The 'Asian Miracle', in short, aborted; and the 'rise of the Pacific region' quickly turned into a trouble-laden stall.

To be sure, these outcomes are measured only over a little more than one decade. Kennedy was dealing with trends over centuries.[3] It is possible that the American and European renaissance is a temporary blip and that Japan and other Asian nations are poised to resume their meteoric rise. Russia and China too may just need more time to adapt to a rapidly globalizing world economy. Nevertheless, the deviations after almost fifteen years in directions opposite to those Kennedy predicted are not trivial. Kennedy did not expect them, and these directions do not seem likely to be reversed quickly. It is just as possible that the United States and now Europe will pull further ahead in the new information economy, that Russia and China will fall farther behind, and that Japan will remain in the position of a catch-up country rather than the leading economic power that Kennedy (and others) foresaw.[4]

What accounts for these poor results from such a sophisticated and widely respected analysis? A first answer is humbling. Social science is often little more than guesswork, dressed up in intimidating models and data. Kennedy was aware of this possibility and made no pretence to 'propose any general theory' about economic cycles, the causes of war, or 'which sorts of society and social/governmental organization are the most efficient' at succeeding in war. He wanted to believe that he had no *a priori* theory at all but simply looked at the historical record to draw 'some generally valid conclusions … while admitting all the time that there may be individual exceptions'.[5] As an historian, Kennedy abjured theory in favour of fact.

But, alas, there is no escape from theory, all the more when an analyst consciously tells us he has no theory. Kennedy, like any historian, has to select his facts, and one needs theory, however primitive or unacknowledged, to do that. Kennedy was also not reluctant to draw policy conclusions from his 'non-theoretical' analysis. His book appealed to the generally liberal media and academic communities in 1987 because it roundly condemned the policies of the then conservative Reagan administration. Reagan's policies, critics believed, exhibited all the features of military overstretch—excessive defence spending and related disinvestment in economic growth due to uncontrolled budget and current account deficits.

Based on his theory, Kennedy could not see that America's spending on the military would bankrupt the Soviet Union, not the United States, and that military outlays in the 1980s did not subtract from US economic recovery. Instead, Reagan's policies to improve incentives and disinflate and deregulate the American economy

[3] Kennedy was given an opportunity to respond to this essay but declined, suggesting that his predictions might be more appropriately assessed after another decade or so.

[4] Other analysts who predicted the rise of Japanese and, more broadly, Asian power include James Fallows, *Looking at the Sun: The Rise of the New East Asian Economic and Political System* (New York: Pantheon Book, 1994); and Clyde V. Prestowitz, Jr., *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988).

[5] See Kennedy, *The Rise and Fall of the Great Powers*, pp. xxi–xxii.

sparked increased US investment and growth throughout the 1980s. After a serious recession in 1981–82, US gross domestic product grew from 1983–89 by an average of 4.3 per cent annually.[6] The end of the Cold War subsequently reduced defence spending, and economic growth rose steadily from 1992–99 by an average of 3.6 per cent annually (starting with 3 per cent growth in 1992, the year when paradoxically Clinton was elected on the slogan 'it's the economy stupid'). Growing tax revenues and declining defence spending, along with modest budget deficit reduction packages in 1991 and 1993, eliminated the fiscal deficit altogether and generated massive budget surpluses in the late 1990s. Kennedy's theory cannot account for any of these outcomes. In short, Kennedy did have an *a priori* theory, and that theory did have partisan political consequences. It is important, therefore, to understand what that theory was.

Kennedy was a realist who saw the world primarily in terms of a struggle for power. In his view, political fragmentation or anarchy, the condition that characterized Europe after 1500, spurred nations to rival one another and drove a race for military arms and ascendance. At the same time, according to Kennedy, economic and technological change evolved unevenly or randomly, conveying advantages arbitrarily to various countries at different times. Political fragmentation and random technological change were self-perpetuating. Some nations might try to dominate others, but they would soon become over-committed, involved in too many military conflicts. Such 'military overstretch' would draw resources away from more productive economic investments. Meanwhile, other nations on the periphery of international conflict and free of military engagements experienced uneven (and unexplained) spurts of technological and economic growth. These powers surged ahead. Eventually, rising nations surpassed formerly dominant nations and used their new wealth to acquire arms and join the military struggle. The cycle of dominance and decline would start all over again.

Kennedy was aware that this account ignored domestic political and historical factors that motivated states to acquire and use their military and economic power. 'There are elements in this story of "the expansion of Europe"', he wrote, 'which have been ignored …'.[7] Such elements, he conceded, included the motives and ambitions that drove individuals and societies 'to dare all and do anything in order to make the world their oyster'. These motives, however, were multiple and mixed; and ambitions permeated all aspects of world affairs. In the end, what determines outcomes, he concluded, was not ambitions but who 'possessed the ships and firepower with which to achieve their ambitions'.[8]

[6] GDP data come from *Economic Report of the President*, Transmitted to the Congress, January 2001 (Washington, DC: Government Printing Office, 2001), p. 279.

[7] *The Rise and Fall of the Great Powers*, p. 27. In a later book, Kennedy also acknowledged that he paid little attention to motivational factors. 'It might appear that I pay insufficient attention to the intangible and nonmaterial dimensions of our human and social existence—to our spiritual and cultural values', he concedes. Although he goes on to deny that this is so, the fact that he has to make the statement suggests how materialist his model actually is. See Paul Kennedy, *Preparing for the Twenty-First Century* (New York: Random House, 1993), p. 16.

[8] Ibid., p. 28. This is a common conclusion among realists. Hans Morgenthau, for example, acknowledged that nations had goals and values (motives) but preferred to focus on the struggle for power, which they all needed to achieve their goals. See Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, 6th edn. Revised by Kenneth W. Thompson (New York: Alfred A. Knopf, 1985), p. 31.

Kennedy started with the existence of ‘ships and firepower’, spread among the nations of the world by some exogenous process of uneven technological and economic change. Then he asked how nations used this wealth and military strength to pursue dominance. He was uninterested in the domestic or historical motives that may have driven nations to acquire the arms in the first place or that might have enabled one nation to develop technology and advance economic production faster than some other country. In his scheme of things, states always used power to respond to external conditions of fragmentation and anarchy. And if they experienced economic growth, this growth was due to exogenous factors, not the possibility that one state motivated its people more effectively or pursued more efficient domestic policies than some other state. Hence, Kennedy’s theory could not account for outcomes influenced by domestic policies, such as Reagan’s initiatives in the early 1980s.

What if Kennedy’s theory had considered both external power and internal policies? What if he had taken into account differing domestic political and economic systems as well as differing amounts of national power? What if international behaviour is a function not only of how much power one state has in relation to another but also of how much the domestic system of one state differs from that of another state and how effectively one state’s system motivates its people to accumulate and use power, compared to some other state’s system? Moreover, what if some states have similar domestic systems? Do they still threaten one another with their relative power? Today’s great industrial powers (assuming Russia and China do not presently fall into this category) are all strong democracies. Do they struggle for military power against one another?

By paying no attention to domestic factors, Kennedy misses completely the phenomenon of the democratic peace, the fact that democratic nations never, or almost never, fight against one another. Nowhere in his study does he anticipate the growing convergence toward democracy and markets that burst upon the world scene after the Cold War ended. He, like other realists, may consider this phenomenon temporary.[9] And because domestic institutions change and the stable democracies may diverge once again, he may be right. But we can never know until we take into account the domestic goals which countries pursue, as well as the military and economic power (‘ships and firepower’) which they use to achieve these goals.

How do we track relative domestic factors as well as relative national power? I suggest we do so by developing the concept of relative national identity to go along with the concept of relative national power.[10] Countries differ domestically in terms of the political, cultural and historical factors that motivate them to accumulate and use power. These factors legitimate the use of power and lead people to support or

[9] Other realists who consider the democratic peace temporary include Henry Kissinger, *Diplomacy* (New York: Simon and Schuster, 1994); Kenneth N. Waltz, ‘Structural Realism after the Cold War’, *International Security*, 25:1 (Summer 2000), pp. 5–42; and John Meersheimer, ‘Back to the Future: Instability in Europe After the Cold War’, *International Security*, 15:1 (Summer 1990), pp. 5–56.

[10] For a study of American foreign policy taking into account both domestic (national identity) and international (national interests) factors, see my recently completed manuscript, *At Home Abroad: Identity and Power in American Foreign Policy* (Ithaca, NY: Cornell University Press, forthcoming in 2002).

oppose a particular national government. Because of this legitimacy, national governments can use force against their own citizens if they violate the nation's laws, and they can call upon their citizens to fight and die in wars against the citizens of other nations. This issue of legitimate power essentially defines the nation. When the people no longer accept the authority of their government to use force legitimately, they take up arms against their own government or refuse to fight other countries to defend that government. The citizens of the United States went to war against one another in 1861, and the citizens of the Soviet Union refused to take up arms to preserve their government in 1991.

Nations compete to motivate citizens to accumulate and use power. This is the dimension of international life that Kennedy misses. The capacity of nations to inspire their citizens is the flip side of their capacity to possess arms and wealth. Without the first, the second is meaningless. Material power is inert. The United States won the Cold War largely by persuading its own citizens, and eventually the leadership and citizens of communist countries, that a liberal society uses its military and economic capabilities more acceptably than a totalitarian society. Relative military power between the United States and the Soviet Union changed little after 1970. What changed was the relative political acceptance in the two countries of the government's right to use power. US citizens, after troubling times in the late 1960s and 1970s, regained their confidence in democratic and market institutions. Soviet citizens became increasingly disillusioned with communist institutions and eventually rejected the right of the Soviet government to use force to preserve itself. Relative legitimacy to use military force, more so than relative military capabilities, was the decisive factor that ended the Cold War (although the balances of nuclear and military arms stabilized US–Soviet relationships and made the eventual resolution by peaceful competition over legitimacy possible).

If Paul Kennedy had considered this competition among states to legitimate power, as well as the competition to balance power, he would have written a different history of Europe after 1500.[11] Instead of mentioning papal power and the Reformation only in passing, he would have emphasized that political identity in Europe before the Reformation was largely religious and that a competition for moral authority was just as much a part of internecine conflict in Medieval Europe as geographic barriers and military technology.[12] With the Reformation, kings and princes broke free of the secular power of the church and justified their rule over the new territorial state largely in religious terms of their own—the divine right of kings. The Reformation and Counter-Reformation did not just reinforce territorial divisions and the struggle for power, as Kennedy argued. These movements defined territorial divisions. States separated across Europe into Protestant and Catholic

[11] For a history of Europe that pays more attention to domestic motivations, see Paul W. Schroeder, *The Transformation of European Politics, 1763–1848* (Oxford: Clarendon Press, 1994).

[12] Kennedy's few references to the Reformation suggest that religious differences reinforced existing geostrategic rivalries but were not themselves a primary source of rivalries. See *The Rise and Fall of the Great Powers*, p. 21. See also p. 70 where Kennedy concludes that 'it was war … that provided a much more urgent and continuous pressure toward nation-building than … philosophical considerations and slowly evolving social tendencies.'

jurisdictions, and religion motivated both internal allegiances and external conflicts throughout the sixteenth and early seventeenth centuries.[13]

During the seventeenth and eighteenth centuries, culture replaced religion as the primary source of identity among states. The aristocracy gained supremacy over the church and legitimated the use of internal and external force more in terms of a common history, culture and capacity for conquest than in terms of a common religion. State elites, most famously epitomized by Cardinal de Richelieu of France, championed cultural over religious loyalties and cultivated a sense of belonging among the people through common customs, language and wars.[14] Simultaneously, a new middle class or bourgeoisie appeared. This class contributed to the riches and prestige of monarchs and state elites and began to clamour for greater participation in the affairs of state. The result was the marriage of the state and the people that burst upon the European scene at the end of the eighteenth century in the form of nationalism.

After the French revolution, nationalism became the dominant dispenser of state authority and legitimacy in Europe. The masses were increasingly mobilized to participate in national life—conscripted into national armies and state bureaucracies and employed in the factories and towns of the new industrial age. Within its womb, however, nationalism was giving birth to a new source of political legitimacy—ideology. Liberal ideology in England and the United States began to base state legitimacy on constitutional government and individual rights, not primarily on culture or tradition. Conservative ideology in Austria and Russia sought to preserve the traditional authority of absolute monarchs, while romantic ideology in Germany and Italy forged governmental authority on the basis of heroic myths and wars of conquest.

Ideology became the dominant source of state identity in the twentieth century. The great political movements of democracy, communism, socialism and fascism swept across Europe, and also Asia, uniting and dividing countries along ideological, more than national or cultural, grounds. Beliefs came to matter as much as blood and history. After massive struggles, democracy endured and strengthened in Europe, North America and Japan. In Europe today, democracy is tempering national and cultural differences. Separate nations are forging a European Union, creating a single currency and increasingly common institutions. Elsewhere, however, national, ethnic and religious differences are reasserting themselves. Where communism collapsed, resentful and sometimes virulent national and ethnic identities reappeared—in Bosnia, Kosovo, the former Czechoslovakia, and the former republics of the Soviet Union. Outside Europe and the West, religion resurfaced to

[13] For contrasting articles documenting struggles for both power and moral authority in Medieval Europe, see respectively, Markus Fisher, 'Feudal Europe, 800–1300: Communal Discourse and Conflictual Practices', *International Organization*, 46 (1992), pp. 426–66; and Rodney Bruce Hall, 'Moral Authority as a Power Resource', *International Organization*, 51 (1997), pp. 591–622. As Hall demonstrates, Pope Innocent III eventually prevailed over the Holy Roman Emperor Otto IV in the early thirteenth century, despite the fact that Otto defeated Innocent in every battle. Innocent appealed to Otto's supporters on moral grounds, and those supporters eventually deserted Otto.

[14] Richelieu was a Catholic cardinal who theoretically owed allegiance to the Pope. But he was also an adviser to Louis XIII and ultimately believed more in the French culture and nation, which Louis XIII represented, than in the supranational authority of the Catholic Church. Under de Richelieu's influence, France fought against the Catholic Church and its temporal emperor in Vienna to expand French territory. See further discussion in text above and Kissinger, *Diplomacy*, ch. 3.

inspire national loyalties in the Middle East, south Asia and parts of southeast Asia and Africa.[15]

National identities change and redistribute the *motivation* to use power, just as national power changes and redistributes the *capacity* to use power. We should track both dimensions of international competition, not just relative 'ships and firepower'. When national identities diverge among the great powers, as they did during the ideological confrontations of the twentieth century, they may exacerbate the struggle for relative power. By the same token, when national identities converge, as they have recently among the democratic great powers, they may temper and even eliminate the struggle for power.

If Kennedy had paid more attention to these factors, he might have noticed that the balance of power in Europe in the seventeenth and eighteenth centuries was not a continuous process of military expansion and overstretch. The balance of power, in fact, was quite restrained. Reflecting on the European system from 1648 to the French Revolution in 1789, Hans Morgenthau writes:

> The princes and their advisers took the moral and political unity of Europe for granted and referred as a matter of course to the 'republic of Europe', 'the community of Christian princes' or 'the political system of Europe' … These men knew Europe as 'one great republic' with common standards of 'politeness and cultivation' and a common system of arts, and laws, and manners. The common awareness of these common standards restrained their ambitions by the 'mutual inference of fear and shame', imposed 'moderation' upon their actions and instilled in all of them 'some sense of honor and justice'. In consequence, the struggle for power on the international scene was in the nature of 'temperate and undecisive contests'.[16]

The French Revolution and subsequent Napoleonic wars shattered this community of shared values. But the Concert of Europe that ended the Napoleonic wars in 1815 installed a new one. As Henry Kissinger writes, the Concert of Europe 'was created more explicitly in the name of the balance of power than any other [system] before or since.'[17] Yet, paradoxically, as Kissinger adds, the Concert 'relied the least on power to maintain itself'. 'The most important reason' for this unique state of affairs, Kissinger says, 'was that the continental countries were knit together by a sense of shared values' and 'a shared sense of justice reduces the desire to use force'. 'Compatibility between domestic institutions is a reinforcement for peace', Kissinger concluded. In the Quadruple Alliance, Prussia, Russia Austria, and Great Britain set about to restore the legitimacy of the monarchy in defeated France and to protect the *status quo* among conservative monarchies against further external aggression by France or other powers. The continental or eastern powers—Prussia, Russia and Austria—went one step further. In the Holy Alliance, they resolved to prevent internal revolution as well as external aggression, because they saw the one leading to the other. The Austrian Prince von Metternich was the principal architect of this arrangement. As Kissinger recounts:

[15] See Mark Juergensmeyer, *The New Cold War? Religious Nationalism Confronts the Secular State* (Berkeley, CA: University of California Press, 1993).

[16] See Morgenthau, *Politics Among Nations*, pp. 236–8.

[17] For quotations in this paragraph, including the long one at the end of the paragraph, see Kissinger, *Diplomacy*, pp. 79–84.

Having witnessed the suffering that a republican France had inflicted on Europe, Metternich identified peace with legitimate rule. He expected the crowned heads of ancient dynasties, if not to preserve the peace, then at least to preserve the basic structure of international relations. In this manner, legitimacy became the cement by which the international order was held together.

Legitimacy, not force, was the centrepiece of the balance of power. In this sense, Kissinger compares Metternich to Woodrow Wilson, the archfoe of *realpolitik*. The difference, Kissinger says, was simply that Metternich sought to base international politics on the conservative values of ancient monarchies, while Wilson sought to base it on the liberal values of emerging democracies. This is a startling admission on the part of Kissinger and realists in general, which includes Paul Kennedy. It acknowledges the crucial role which relative domestic identities play in sanctioning or mitigating the use of external force in international affairs.[18] Under converging conservative rules of legitimacy, European monarchs agreed to use force externally to preserve the international *status quo* (the case of the Quadruple Alliance) and to combat internal revolutions (the case of the Holy Alliance). Later, under converging liberal standards, Wilson expected that democratic countries would sharply constrain the use of force internally and relate to one another externally in ways that would significantly, if not totally, eliminate the use of force—the so-called democratic peace. Communities of identity, or lack thereof, determine in large part how balances of power work. Thus, we need to consider both identity and power if we are to gain a more complete understanding of 'The Rise and Fall of the Great Powers'.

Kennedy's predictions missed the mark because his implicit theory ignored the two most dramatic developments of the twentieth century. One was the convergence of domestic identities around democratic ideals. The other was the technological revolution that both restrained the prospects of interstate war (the nuclear revolution) and accelerated interstate social and economic interactions (the transportation and now communications revolutions).[19] These developments contributed to the democratic peace and the more cautious approach to general war. Local wars abound, to be sure, and it would be foolhardy to conclude, as Norman Angell did in 1910, that globalization had now reached the stage that the use of military force no longer pays.[20] Identities change, and human beings still care as much about the purposes (cultural, ideological, ethnic, and so on) for which they seek wealth and military power as they do about the wealth and power themselves. But it would be

[18] In an earlier book, Kissinger writes about international politics in terms that come very close to the notions of power and identity in this article. 'What is considered just', he writes, 'depends on the domestic structure of [the statesman's] state; what is possible depends on [that state's] resources, geographic position and determination, and on the resources, determination and domestic structure of other states'. In short, international behaviour depends on relative domestic identity and relative geopolitical power. Nevertheless, dealing with aristocratic monarchies in 19th century Europe, Kissinger ascribes much more influence to the manipulation of statesmen (particularly Metternich) than to the constraints of domestic politics. See *A World Restored: Metternich, Castlereagh and the Problems of Peace 1812–1822* (Boston, MA: Houghton Mifflin, 1973), p. 5 and chs II, III and XVII.

[19] Realists have difficulties understanding how nuclear weapons affect the traditional rise and fall of great powers. See the epilogue in Robert Gilpin's book, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981) in which Gilpin appeals to variables entirely outside the realist paradigm in order to explain why the cycle of hegemonic wars will not continue in the nuclear age.

[20] See Norman Angell, *The Great Illusion* (New York: P.P. Putnam, 1933, originally published in 1910).

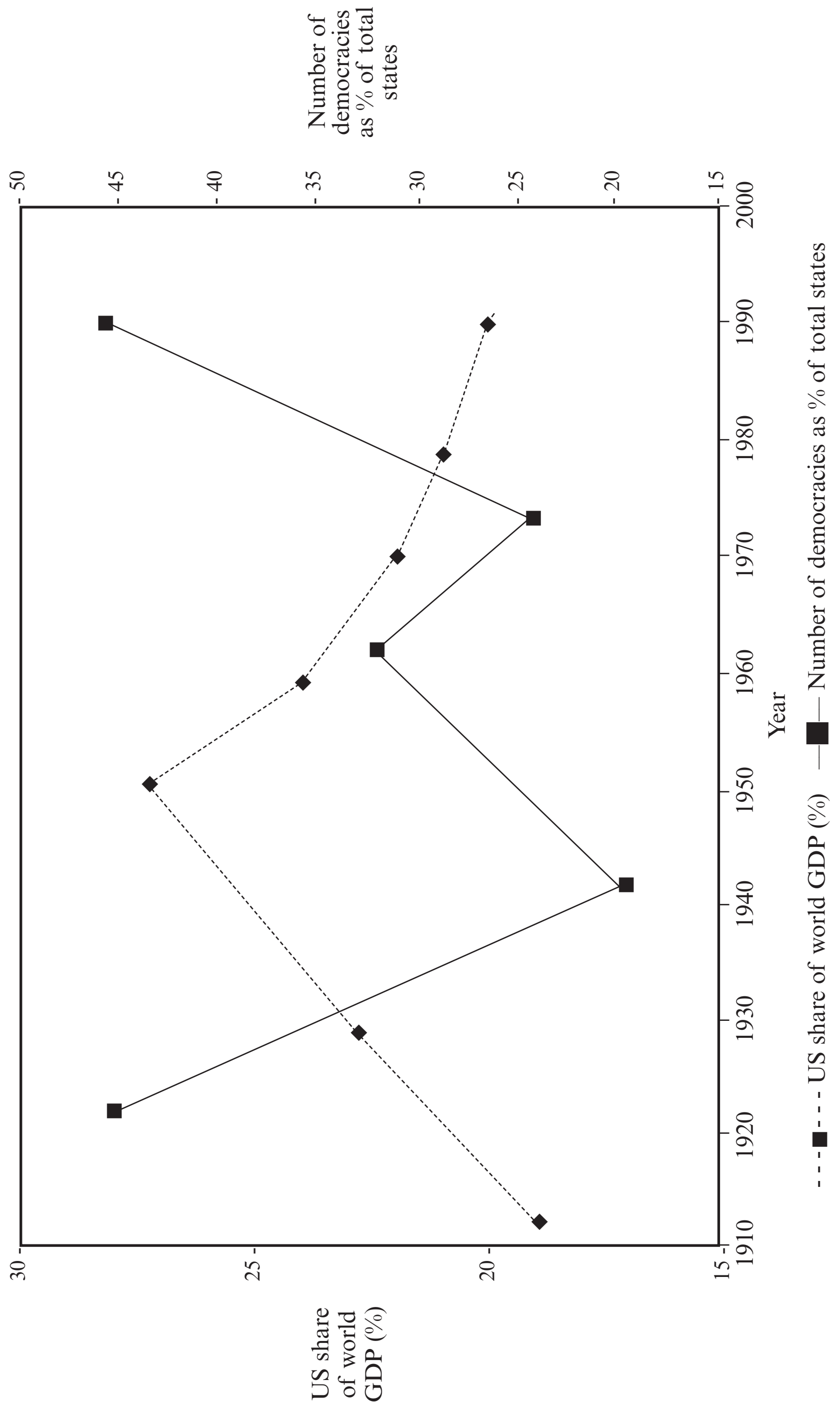
equally foolhardy to analyse history or contemporary international politics without taking identity factors into account.

Figure 1 suggests how an identity and power perspective would have interpreted America's position in the world in the late 1980s, when Kennedy predicted America's decline. He was looking only at America's relative power. As Figure 1 shows, America's relative power did decline after 1945. Even during the heydays of American productivity growth and postwar boom in the 1950s and 1960s, America's share of world GDP dropped steadily relative to other countries, particularly western Europe and Japan. But that decline was not significant. It coincided with a dramatic narrowing of identity differences among the major industrial powers—the very powers that historically wage the struggle for military power and dominance that Kennedy documented. West Germany and Japan joined the world of stable democracies, and other industrialized states—Spain, Portugal, Greece—followed suit. As the second line in Figure 1 suggests, the number of democracies as a percentage of total states rose dramatically from about 20 per cent in 1940 to 45 per cent in 1990. The political context in which America was exercising its power was becoming much less threatening. (As Figure 1 also shows, this post World War II situation was in sharp contrast to the interwar period, in which America's relative power increased but the number of democracies declined and the world became more threatening.)

Once the Soviet Union collapsed, democratic standards of legitimacy spread to other countries—Poland, Hungary, the Czech Republic, South Korea, Taiwan and even, in part, to former Soviet republics, including Russia itself. The ascending line in Figure 1 shows the dramatic increase after the mid-1980s in the percentage of democratic states in the world. This convergence was no accident. It was exactly what American policymakers hoped to achieve. They rebuilt World War II adversaries to strengthen free societies in the struggle against the Soviet Union. And since the end of the Cold War, they have promoted the enlargement of democracy and economic engagement to bring emerging nations into the democratic community. These policies recognize that if nations converge on the domestic rules by which they legitimate force, they threaten one another less and can manage the balance of power with less conflict. Countries with strong domestic systems that practice the rule of law and peaceful resolution of disputes may be able to eliminate the balancing of military power altogether. America's relative military power is largely irrelevant for day-to-day relations among the mature democracies.

In America's case, converging relative national identities offset declining relative material power. America needed less power to accomplish its purposes because those purposes now overlapped with a wider set of countries. America's ascent to its post-Cold War status of the world's only superpower is not primarily a phenomenon of relative power. As Figure 1 shows, America's share of World GDP has not increased significantly in recent decades even though its decline has slowed. America's lone superpower status is much more a consequence of America's ideological leadership in a much larger community of democratic nations. Democracy has had a multiplier effect on American power.

America's lone superpower status is not permanent. Power relationships will shift in the future as they have in the past. And so will domestic identities. Hence, the democratic peace is by no means assured or permanent. Intense economic competition might well escalate one day to cause new military conflicts among the



Sources:
Huntington, Samuel P. *The Third Wave: Democratization in the Late Twentieth Century* (Norman, OK: University of Oklahoma Press, 1993), p. 26.
Maddison, Angus. *Monitoring the World Economy 1820–1992* (Paris: OECD Development Center, 1995), Tables C-16a and G-2, pp. 182–3 and 227.

Figure 1. *US relative power and identity.*

United States, western Europe and Japan. But what will create such military rivalry is not the shift in relative power but shifts in relative national identities. As democracies weaken and diverge, they too may engage in arms competition and wars.[21] The internal and external motivations of states will determine who produces, in Kennedy's phrase, 'the ships and firepower with which to achieve their ambitions', not exogenous forces such as 'uneven rates of economic growth' or 'technological breakthroughs'.

Power in the information age is largely generated by internal change. This internal change is a product of intensive economic and technological development, shaped by domestic institutions and policies, not by external competition over territory, resources and markets. In the 1980s, the United States rebuilt its economic might by focusing on the transformation of its domestic market. Japan, by contrast, lost ground by focusing on the conquest of foreign export markets and neglecting internal reforms. In the new information age, wealth and power derive from innovation and productivity. These improvements are mostly determined by domestic policies, not by international trade.[22]

Technology sets broad constraints which limit the future of a country's position in the international distribution of power. No country will gain power in the twenty-first century if it does not accommodate the information revolution (just as no country became a great power in the twentieth century until it accommodated the industrial revolution). The relative shift of capital and labour from labour-intensive manufacturing, construction and agricultural production to high-skilled telecommunications, software, financial, transportation and retail services is inexorable. Manufacturing employment in the United States is now below 15 per cent of total employment from over 35 per cent in the 1950s. Each country will navigate this transformation through its own domestic institutions and cultural values. Not every country has to follow the American model. But no country is going to avoid this transformation and remain a significant player in the world of the twenty-first century.

Domestic policies play the biggest role in deciding who wins and who loses in the sweepstakes of relative power in the information age. Some domestic institutions will work better than others, either because they are relatively more efficient, or because they motivate maximum effort on the part of their people even if they are relatively inefficient (for example, a mobilized state with centrally-run industries such as Nazi Germany), or because they do both. Political parties, media and scholars will argue which set of domestic policies or institutions work best. Capitalism, freed of its old nemesis of Marxism, will face new adversaries—third way, communitarian, environmentalist and postmodern alternatives. Liberalism, freed of its most recent enemy, communist totalitarianism, will face new challenges from multicultural and religion-based ideologies. The debates are necessary and healthy. History, as much as we

[21] On the threat of conflict between weak and strong democracies, see Spencer Weart, *Never at War: Why Democracies Will Not Fight One Another* (New Haven, CT: Yale University Press, 1997); and Jack Snyder, *From Voting to Violence: Democratization and Nationalist Conflict* (New York: W.W. Norton, 2000).

[22] On this point, see Paul Krugman, 'Competitiveness: A Dangerous Obsession', *Foreign Affairs*, 73:2 (March/April 1994), pp. 28–45; and his subsequent book, *Pop Internationalism* (Cambridge: MIT Press, 1996).

might wish (or would we?), has no end. Still, one would hope, there are lessons to be learned from the recent and distant past.

Kennedy derived lessons from historical patterns in the evolution of relative power. Are there comparable lessons to be drawn from historical patterns in the evolution of relative identities, which Kennedy did not consider? Two general patterns seem apparent. First, all political societies motivate people by some combination of appeal to individual development and self-interest, on the one hand, and community development and collective interest, on the other. These appeals influence not just *if* a country survives but more importantly *what kind* of country survives. Liberal societies give the edge to individual freedom and self-development. Authoritarian societies give the edge to community goals and national development. For the past two centuries, liberal and authoritarian institutions (fascism, socialism, communism and liberalism) have contended against one another to motivate citizens and accumulate military and economic power. At the beginning of the twenty-first century, liberalism holds the high ground. Liberal institutions and markets seem to work best to liberate individual expression and creativity, and this mobilization of individuals of all genders, races, and religions unleashes an enormous physical capability to increase military and economic power. Liberalism's ascent may be temporary. Nationalism may be on its way back.[23] The struggle for and against liberalism goes on; the end of history is probably not at hand. But the bar of success has been set by liberal societies. Whatever new political identity does better by way of motivating and unifying its people will have to clear this bar or liberal societies themselves will have to lower it by failing to continue to perform.

This fact, it would seem, is one lesson to be drawn from the end of the Cold War. The United States and other free societies won, despite their many faults, because they inspired their people to greater sacrifice and achievement than communist societies did. If nations or regional actors aspire to succeed in the struggle for power in the future, they will have to succeed to some extent in the struggle for individual liberty as well. In the twenty-first century, can anyone imagine a nation becoming a dominant power that kills (for example, the effect of population controls in China) or mutilates (for example, genital mutilation in parts of Africa) its female citizens, employs only a miniscule fraction of its women after marriage (Japan), or demands that its women remain hidden from public places (fundamentalist Islam). If Confucian, Muslim and other non-Western societies do not overcome these self-imposed handicaps, they may cause unspeakable disruption and damage in the world (especially if they clash militarily with the West), but they will not prevail over the course of time. There is no rolling back the powerful emancipation of individual human beings which grew out of the Reformation and Enlightenment in Europe and gives liberal societies a material edge in the acquisition and use of wealth and power.

Thus, a certain degree of individualism may be necessary for any society to achieve full material potential in the information age. Individualism in this sense is indeed universal. But individualism will always come wrapped in a social context, and it will be combined with different kinds of cultural appeal to community and collective self-interest. Liberal democracies will face new challenges. Multiculturalism

[23] Henry Kissinger, argues, for example, that after a century of ideological struggle, the world is returning to the traditional, historically grounded, culturally-motivated, equilibrium-based world of the nineteenth century. See *Diplomacy* (New York: Simon and Schuster, 1994), chs. 1 and 31.

places more emphasis on traditional sources of ethnic, religious and cultural identity. Non-Western societies insist on greater parental and public authority. Both multiculturalism and non-Western ideologies seem to provide more order and community than individualistic democracies. Liberal democracies will have to meet these challenges by rediscovering their community roots. Classical liberalism overturned oppressive aristocratic communities in favour of individual freedom and market competition. But it did not overthrow community itself. Rather it created a new basis for community in the *common* belief that all individuals are free and equal regardless of their race, creed, culture or national origin. This belief probably derives from some combination of reason and religion—the rational belief that each individual human being possesses reason and can be educated, and the religious belief that, even though human beings have different capacities to reason and be educated, they are nevertheless equally worthy in the sight of God (a religious conviction), whatever their level of performance. The belief in individual worth is the product of the Reformation; the commitment to individual reason and education is a product of the Enlightenment. Neither commitment alone would suffice to produce both the equality and excellence (performance) that characterize liberal societies. But together these commitments constitute substantial grounds for community and drive the traditional liberal quest to secure political and civil rights for all individuals and to worry continuously about the range of inequality consistent with both material excellence and social justice.[24]

The second lesson one can draw from the recent and distant past is that domestic policy choices matter. Material growth is not primarily an exogenous phenomenon, as Kennedy maintained. It is also a product of how societies organize politically to produce wealth. The mix of individual and collective motivation that nations choose to anchor their political system circumscribes, to a considerable extent, the mix of private and public activities which they apply in economics. History suggests that liberal societies generally do not choose statist economic systems, and statist societies generally do not choose capitalist economies. But there is another source of limits on economic choices, which does not exist in politics. That is physical and economic scarcity. Resources are always limited at some price, and some, such as fossil fuels and petroleum, may be limited physically (albeit available at lower quality and lower depths perhaps for a very long time to come). Just as history suggests that a struggle for power, at least in the information age, is also a struggle for liberty, it further suggests that the struggle for wealth is, in good part, a struggle to encourage significant economic competition.

Because resources (labour, capital, raw materials and even imagination) are limited at some price, competition ensures a more (not most, unless it is perfect competition) efficient use of those resources that are available and thus a greater output for the same relative input. It is a point that economic debate often obscures, because short of perfect competition (a theoretical possibility only) economic analysis also suggests that second-best solutions may be more efficient in practice. The real choice, however, is not between perfect and imperfect competition but between more and less competition. History offers powerful evidence that more competition works better than less, at least across the broad middle range of options

[24] The precise mix of liberty and equality is unknown. There may be only two types of injustice: to treat equal people unequally *and* to treat unequal people equally.

that most countries face. This evidence may be the reason that all advanced societies are capitalist economies, even though some poor societies are also capitalist, at least in name (for example, India). No advanced society has a statist economy that centralizes production.

In broad terms (and I emphasize broad), economic science has progressed to the point that we know the basic economic determinants of growth. No economy in the last one hundred years has increased wealth over a sustained period of time by means of chronic fiscal deficits, run-away inflation, protectionist trade policies, or state monopolies and severe restrictions on foreign investment, capital flows and exchange rates. Since most countries start their development from a baseline of agricultural subsistence and relative isolation from foreign markets, the general *direction* of economic policy that fosters growth is toward more open and competitive markets. The G-7 countries and the international financial institutions should not lose sight of this important reality, even as they recognize and work with the political factors in emerging countries that limit social tolerance for monetary and fiscal discipline, trade liberalization, foreign investment, and market-based exchange rates.

The perspective offered in this critique of Paul Kennedy's best-selling book paints a very different picture of the world at the beginning of the twenty-first century. In the domestic struggle to liberate individual initiative and create competitive markets, the countries of the Pacific region face significant handicaps. Their collectivist and statist traditions do not fit well with the entrepreneurial requirements of the information age. Malaysia's determination to manage the economy through short-term capital controls and to silence the opposition by imprisoning dissident cabinet officials is a case in point. China faces similar contradictions. By contrast, the United States and democratic Europe are on the upswing. Their pluralist identities emancipate all citizens, especially women and minorities, to participate in the process of 'creative destruction' (replacing the old with the new) and to grow both politically and economically by competition. This process is messy, to be sure, and it is never guaranteed. Pluralist systems could lose their way, just as collectivist systems may finally find their way to competitive reforms. But it is hard to believe that, given the historical record, collectivist identities hold the upper hand. The lesson of the ages is not that great powers rise and fall. It is rather that democratic powers succeed best in creating wealth and power, and that this success reduces the military dimension of interstate competition and releases the productive energies of civil society to generate growing world markets and peaceful transnational societies of law and comity.