Classical Liberalism and International Economic Order: Studies in Theory and Intellectual History

Razeen Sally

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American political culture, since World War I, has cast the debate over international affairs and world trade into absurdly misleading categories. We are told that there are isolationists, who are protectionist in trade and reluctant to commit United States troops overseas, and there are internationalists, who favor the freedom of international trade and are ready to go to war and to fund international bureaucracies when it serves the (broadly defined) national interest to do so. Bound up with this truncated and confused debate are questions concerning international financial institutions such as the International Monetary Fund (IMF) and the World Bank. Those who want to support these institutions from the United States federal budget are called *internationalists*, while those who do not are decried as *isolationists* (a term nearly always used derisively).

The casual observer might conclude that the terms are somewhat useful as political categories, for it seems to be the case that the political forces favoring free trade (or some version of it) are also more likely to go to war and back the IMF, while those who agitate for industrial protection are also more skeptical of international military campaigns. In any case, this apparent division has grown more conspicuous since the end of the Cold War. It was the Clinton administration that negotiated and then argued for the passage of two major international trade treaties in the 1990s. President Clinton has been a strong supporter of IMF funding even as he pursued bombing campaigns in the Persian Gulf, Africa, and Serbia. At the same time, the political forces associated with Patrick Buchanan[1] have opposed military interventions since the end of the Cold War, but also pushed for higher and higher tariffs on imports.

Whatever the practical reality, the division makes no theoretical sense, for a consistent position would either favor or oppose government intervention in trade, international economic management, and warfare. The consistent war hawk might note, for example, that many international conflicts leading to war began as trade disputes rooted in protectionist policies. But even more important, the division between isolationists and internationalists leaves out a vibrant tradition of political economy, namely, that represented by the Catholic political tradition. Since the late-Scholastic period, when Catholic theologians first came to see the social advantages of international trade, the Catholic political tradition has been internationalist in matters of economics and cultural exchange, while insisting on a stringent standard for evaluating the justice of wars, particularly those that do not involve vital national interests (the requirement that war be undertaken defensively, for example, would rule out most United States military activities since 1812). It is equally true that the Protestant political tradition, associated with the thought of Hugo Grotius, advocated international but unmanaged engagement in trade while seriously restricting the right of a state to go to war with another state.[2]

But where is this alternative tradition represented in modern political economy? What Razeen Sally has done in his outstanding intellectual history, *Classical Liberalism and International Economic Order*, is to demonstrate that a vibrant tradition exists within modern political economy that embraces a libertarian concept of international policy, seen in strictures against war, an embrace of decentralized political institutions, and unsubsidized and unmanaged free trade as a moral and economic necessity. The result is an extremely valuable series of essays on the thought of David Hume, Adam Smith, Frank Knight, Jacob Viner, Wilhelm Röpke and the Ordoliberals, and Jan Tumlir. Sally draws on the thought of these individuals and schools (but not uncritically) in an attempt to break out of the narrowly restrictive categories that dominate most discussions of international affairs. He shows that it is not only possible but also deeply necessary to be internationalist on trade and isolationist in politics. The book chooses as its opening quotation an illuminating statement by Röpke: “Internationalism, like charity, begins at home.”

To be sure, in one sense, Röpke’s characterization applies to the entire classical liberal tradition, from the thinkers of the Scottish Enlightenment, to the French liberals, to the Austrian School, to the American Founders. However, Sally performs a useful task by restricting himself to the writings of modern thinkers who have made seminal contributions to understanding international trade and its relationship to politics. He has defined the crucial issues in a manner that appeals to academic economists, who are often too involved in the technical minutia of their discipline to put much serious thought into broad questions of international political economy.

At the heart of this classical liberal tradition is the assumption that international relations need not be organized by a central authority, or even by treaties among states, but that international relations achieve coordination and order through a spontaneous process of economic and cultural exchange. Sally sharply distinguishes this position from that of the neo-liberal institutionalists who, according to him,

> have a strong, and often seemingly unconditional, attachment to international organizations and elaborate mechanisms of intergovernmental negotiation and political coordination. They regard such mechanisms to be essential to the maintenance of a relatively open and stable international economic order. At the same time most of them are at least implicit defenders of interventionist governments, generous welfare states, and corporatist arrangements uniting governments and well-organized interest groups within nation-states—all the hallmarks of a mixed economy, not a free-market economy. (7)

Aside from being one of the few books available that sympathetically explores the classical liberal tradition, what is its unique contribution? Sally demonstrates that Frank Knight is much less a member of the Chicago School with its positivist methods and *homoeconomicus* assumptions than is generally thought. He argues that Knight was more conservative than he is generally assumed to have been, in the sense that Knight understood the evolving moral and cultural foundations of classical liberalism and favored economic methods based on realistic assumptions about human motivation. Sally also shows that the trade economist Jacob Viner, despite his periodic endorsements of international institutions, was skeptical that nations could formulate precise rules to govern trade, and criticized the credulity of people who put faith in the United Nations to enforce world peace. Nevertheless, Sally criticizes Viner for his unacceptable compromises with the prevailing Keyensian wisdom in the post-war intellectual climate.

The most compelling section of the book, by far, concerns the work of Wilhelm Röpke, particularly with respect to his forgotten articles and books on international political economy. Röpke's three seminal works on international political economy are *International Economic Disintegration* (1942), *Economic Order and International Law* (1955), and *International Order and Economic Integration* (1959). I agree with Sally's judgment that these works have been unjustly neglected. Together they comprise a singular contribution in the history of classical liberalism, for Röpke argues against political unification on internationalist grounds, not on isolationist ones. He contends that the smaller the political unit, the closer government will be to the people, which means it will be easier to keep it in check (thus, the less likely it will be to undertake large-scale experiments in macroeconomic planning). At the same time, smaller political units are more dependent on trade with their neighbors, thus enhancing the prospects for a secure peace. In the language of Catholic social teaching, he embraces solidarity through trade and subsidiarity through self-government.

This was not just theory for Röpke, who could never resist the temptation to throw himself into contemporary political battles (for which we can be thankful). He opposed all post-war efforts to create a world government. In fact, he was even skeptical of European political union. As Sally notes, "he adopted clear and controversial opinions in the thick of highly charged debates" (133). Among his generation of classical liberal thinkers, he was nearly alone in his opposition to world economic management. Instead, he favored order from the bottom-up, which is based on small communities governing themselves in accord with their own cultural traditions. He vigorously opposed the World Bank and the IMF, correctly predicting that these institutions would only exacerbate the problems of international debt and world inflation. Remarkably, he even opposed the Marshall Plan on the ground that it represented forcible redistribution of property and would likely end in more centralized political systems (joining the journalist Henry Hazlitt, who astonished many by taking the same position).[3]

At the outset, Sally predicts that he will be criticized for being "too eager to use past thought as a searchlight on modern policy." However, it is not that Sally is too eager, but that he plainly gets matters wrong with regard to the World Trade Organization (WTO). The WTO is an institution that embodies the very ideal of the neo-liberal institutionalist structure that Sally's book stands against. It is designed to browbeat governments into ratcheting up regulations under the guise of harmonization and to support a bureaucracy conveying the impression that world trade depends on agreements among governments—not on spontaneous cooperation among producers and consumers. Sally opines that Röpke would have maintained a favorable opinion of the WTO, which he mistakenly identifies with GATT (137, 195). Sally is correct to observe that Röpke was not seriously opposed to GATT but fails to present the political context. GATT was a fallback measure designed to support the international trading system in the wake of the political failure of the International Trade Organization (ITO), which the United States Senate shot down in 1948. The ITO, which classical liberals oppose,[4] was the actual predecessor of the WTO. The charters of these institutions include calls for a variety of planning measures; fiscal policy in the case of the ITO, and "sustainable development" in the case of the WTO. This is why Röpke argued so strenuously against the ITO (and Sally quotes him to this effect on page 141). However, there is a difference between reluctantly supporting GATT as a second-best solution (authentic free trade being the first-choice solution), and actively supporting it as essential to the international economic order. Neither GATT, the ITO, nor the WTO are necessary for a thriving international economy, and the classical liberal tradition Sally celebrates underscores that point. We can imagine, if Röpke were alive today, he would have strong words for both the anti-trade forces attacking the WTO, as well as the WTO itself, which presumes to be wise and powerful enough to manage the international economy.

Nonetheless, Sally makes up for this minor problem by drawing attention to an interesting trade theorist who discerned both the merit of GATT's informal system of reciprocal negotiations, and the dangers of eliminating political competition through centralizing the state. His name is Jan Tumlir, a Czech economist, who immigrated to the United States in the 1940s. Tumlir never completed his magnum opus, due to his untimely death in 1985, but he did leave behind important essays on property rights, political decentralization, and international trade. He was a strong opponent of international government intervention and was among the first to see the danger of non-tariff barriers to trade. He saw protectionism and macroeconomic stabilization policies as the key culprit in bringing about the economic stagnation of the 1970s. He was an advocate of taking the political discretion out of international economic policy and amending the rules of international exchange to permit as much freedom for the movement of goods and services as possible. Tumlir emphasized that domestic constitutionalism was essential for restricting the tendency of politicians to rent-seek at the expense of world trading relations.

The result of Sally's effort is an exciting intellectual history. His work begins the process of unraveling the present intellectual consensus of neo-liberal institutionalism, and its media counterpart of pigeonholing all foreign-policy perspectives as either internationalist or isolationist. He points the way toward a rethinking of the central issues of trade and foreign policy that place voluntary exchange, market relations, constitutional government, and human cultural contract among all people at the center of the debate. In Catholic terms, he has succeeded in showing that there is indeed a modern intellectual tradition that supports both subsidiarity (political decentralism) and solidarity (international cooperation through trade) without granting undue powers to the state either at the national or international levels. *Classical Liberalism and International Economic Order* will aid students and scholars seeking to bolster such a tradition within religious circles today.

Notes

1. Patrick J. Buchanan, *A Republic, Not an Empire* (Washington, D.C.: Regnery, 1999).
2. Vreeland Hamilton, *Hugo Grotius: The Father of the Modern Science of International Law* (New York: Rothman, 1986).
3. Sally might have taken more notice of Röpke's advocacy of the gold standard, which may have helped explain why he was opposed to flexible exchange rates. For under the gold standard, there is a single monetary standard to use in world trade, even though it differs in name and unit of measurement.
4. Philip Cortney, *The Economic Munich: The I.T.O. Charter, Inflation or Liberty, the 1929 Lesson* (New York: Philosophical Library, 1949).

The Hayek-Keynes Debate
Lessons for Current Business Cycle Research

John P. Cochran and Fred R. Glahe
Lewiston-Queenston-Lampeter: The
Edwin Mellon Press, 1999, 221 pp.

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Professors John P. Cochran and Fred R. Glahe undertake the formidable task of comparing and contrasting Hayek's and Keynes's approach to trade-cycle theory. In addition, they include a thorough discussion of the relative differences between the classical and the neoclassical approaches to the business cycle.

There is a general introduction followed by a brief exposition of the "Wicksell connection" and of objections by Hayek and Keynes to classical monetary theory and quantity equation, chiefly over the methodology of separating monetary and value theory. The subsequent chapters provide a Hayekian interpretation of the methodology and foundations of trade-cycle theory; the role of capital theory in trade-cycle theory; the self-reversing nature of a monetary change; crisis, unemployment, and policy implications; use of equilibrium in trade-cycle theory; and lessons for contemporary theorists from the Hayek-Keynes debate. One advantage of this organization is that the authors were able to present Hayek's theory in detail. However, the principal disadvantage of this format is that a fair