The Political Economy of International Reform and Reconstruction

Ludwig von Mises

Selected Writings of Ludwig von Mises

The Political Economy of International Reform and Reconstruction

Edited and with an Introduction by

Richard M. Ebeling

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February 2000

Introduction

Ludwig von Mises: The Man and His Ideas

All except one of the essays in this volume were written by Austrian economist Ludwig von Mises in the four years immediately after his arrival in the United States in the summer of 1940 as a refugee from war-torn Europe. Half of them were delivered as lectures. The others were prepared as monographs on special topics. Their general theme is the problem of international reconstruction and reform in the era succeeding the Second World War.[1]

In the Europe he had left behind, Ludwig von Mises had been one of the most celebrated—and controversial—economists of his time. Over the preceding thirty years, he had acquired an international reputation as one of the leading contributors to the Austrian School of economics and as possibly the foremost critic of the collectivist trends of the early twentieth century. In the 1920s, when the appeal of socialism in its various forms was at its zenith, Mises boldly challenged the feasibility of a fully centralized planned economy. He also questioned the long-term stability of an interventionist or mixed economy as a sustainable "middle way" between a free market system and a socialist, centrally planned economy. And he forcefully argued that only a system of *laissez-faire* capitalism—of genuine capitalism—could successfully assure freedom and prosperity.

At the same time, he developed his analysis of alternative systems of social and economic order in the wider context of a philosophical and methodological approach that ran counter to the Marxist, positivist, and historicist prejudices of the time. He insisted that social analysis had to have as its starting point a general theory of individual human action and choice. It could not be successfully constructed on the basis of mythical racial, class, or nationalistic aggregates.

An understanding of Mises's arguments on these subjects, as well as his

1 Two other previously unpublished papers from 1943 by Mises on the related topics of "Autarky and Its Consequences" and "Economic Nationalism and Peaceful Economic Cooperation" were included in an earlier collection; see Richard M. Ebeling, ed., *Money, Method, and the Market Process: Essays by Ludwig von Mises* (Norwell, Mass.: Kluwer Academic Press, 1990), pp. 137–65.

work as an influential economic policy analyst in the Austria between the two world wars, is essential if one is to appreciate his ideas on postwar reconstruction and reform. In 1920, Mises published "Economic Calculation in the Socialist Commonwealth,"[2] which he expanded into a comprehensive treatise on *Socialism* in 1922.[3] In 1927, he published *Liberalism*,[4] which was followed two years later by *Critique of Interventionism*.[5] In these important books, he offered a detailed and consistent defense of free-market capitalism in opposition to the regulated economy and socialism.

For Mises, one of the greatest accomplishments of mankind has been the discovery of the higher productivity arising from a division of labor. The classical economists' analysis of comparative advantage—under which specialization in production increases the quantities, qualities, and varieties of goods available to all participants in the network of exchange—is more than merely a sophisticated demonstration of the mutual gains from trade. As Mises was to later express it, the law of comparative advantage actually is the law of human association: The mutual benefits resulting from specialization of activities constitute the origins of society and the development of civilization.[6]

The rationality of the market economy lies in its ability to allocate the scarce means of production in society for the most efficient satisfaction of consumer wants in a complex system of division of labor—that is, to see to

2 Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," [1920] in F. A. Hayek, ed., *Collectivist Economic Planning* (London: Routledge & Sons, 1935), pp. 87–130.

3 Ludwig von Mises, *Socialism* (Indianapolis: Liberty Fund, [1951] 1981); on Mises's critique of socialism and its relation to earlier criticisms of central planning, see Richard M. Ebeling, "Economic Calculation under Socialism: Ludwig von Mises and His Predecessors," in Jeffrey M. Herbener, ed., *The Meaning of Ludwig von Mises* (Norwell, Mass.: Kluwer Academic Press, 1993), pp. 56–101.

4 Ludwig von Mises, *Liberalism in the Classical Tradition* (Irvington-on-Hudson, N.Y., and San Francisco, Calif.: Foundation for Economic Education and the Cobden Press, [1927] 1985).

5 Ludwig von Mises, *Critique of Interventionism* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, [1929] 1996).

6 Ludwig von Mises, *Socialism*, pp. 258–61; *Human Action*, *A Treatise on Economics* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 4th rev. ed., 1996), pp. 157–66.

it that the means at individuals' disposal are applied to the most highly valued uses, as expressed in the free choices those individuals make in the marketplace. Of course, this requires some method of discovering the alternative uses for which scarce means might be employed and their relative value in their competing uses. Mises explained that competitively determined market prices, in an institutional setting of private ownership over the means of production, provide the only reliable method for solving this problem. On the market for consumer goods, buyers express their valuations for commodities in the form of the prices they are willing to pay. Similarly, on the market for producer goods, entrepreneurs express their appraisals of the relative future profitability of using factors of production in manufacturing various goods through the prices they are willing to pay.

Market prices, expressed through the common denominator of money, are what make economic calculation possible. The relative costs and expected revenues from alternative productive activities are compared and contrasted with ease and efficiency. The competitive processes of the market tend to assure that none of the scarce factors of production is applied for any productive purpose for which there is a more highly valued use (as expressed in a rival entrepreneur's bid for their hire). The value of the goods desired by consumers is imputed back to the scarce means of production through the competitive rivalry of entrepreneurs. Thus the means available in society are applied to best serve people's ends.

Mises's crucial argument against all forms of socialism and interventionism is that they prevent the effective operation of this market process and thus reduce the rationality of the social system. The triumph of socialism—with its nationalization of the means of production under government control and central planning—meant the *irrationalization* of the economic order. Without market-based prices to supply information about the actual opportunity costs of using those resources (as estimated by the competing market actors themselves) decision-making by socialist central planners is inevitably arbitrary and "irrational." The socialist economy is, therefore, fundamentally *anti-economic*.

Interventionism does not abolish the market economy. Instead, it introduces various forms of onerous controls and regulations that deflect production from the paths that would have been followed if entrepreneurs, in the search for profits through the best satisfaction of consumer demand, had been left free to fully follow their own judgments concerning the use and disposal of the factors of production under their control. Price controls, in particular, distort competitively determined relationships between selling prices and cost prices, resulting in severe misallocations of resources and misdirected production activities.

One other major contribution by Mises during his years in Europe was his pioneering work on monetary theory and policy. Before the First World War he published *The Theory of Money and Credit* (1912).[7] In this book, he applied the Austrian theory of marginal utility to the problem of explaining the value of money on the basis of individuals' demands for holding cash balances. He also developed a dynamic sequence analysis, enabling him to explain the process by which changes in the quantity of money bring about redistributions of wealth, relative price changes that modify the allocation of real resources among various sectors of the market, as well as how monetary changes introduced through the banking system can distort interest rates in such a way as to generate business cycles. One of the conclusions that Mises reached in his analysis of monetary processes is that business cycles are *not* a phenomenon inherent in the market economy. Rather, they are caused by government mismanagement of the monetary and banking system. He later restated and refined his arguments relating to monetary policy in *Monetary Stabilization and Cyclical Policy.*[8]

A wider theme of Mises's writings in the period between the world wars is the philosophical and methodological foundations of economic science. In a series of essays written in the 1920s and early 1930s he argued that economics belongs to a more general science of human action, which he came to call "praxeology." He stated that economics begins with the concept of intentionality and purposefulness, and that this makes economics—and its methods of analysis—different from the approaches followed for the study of the physical sciences. At the same time, the logic of action and choice, which economists take as their starting point for analy-

7 Ludwig von Mises, *The Theory of Money and Credit* (Indianapolis: Liberty Fund, 3rd revised ed., [1924; 1953] 1980).

8 Ludwig von Mises, "Monetary Stabilization and Cyclical Policy," [1928] in Percy L. Greaves, ed., *On the Manipulation of Money and Credit* (Dobbs Ferry, N.Y.: Free Market Books, 1978); see Richard M. Ebeling, "Ludwig von Mises and the Gold Standard," in Llewellyn H. Rockwell, Jr., ed., *The Gold Standard: An Austrian Perspective* (Lexington, Mass.: Lexington Books, 1983), pp. 35–59; and Richard M. Ebeling, "Variations on the Demand for Money Theme: Ludwig von Mises and Some Twentieth Century Views," in John W. Robbins and Mark Spangler, eds., A *Man of Principle: Essays in Honor of Hans F. Sennholz* (Grove City, Pa.: Grove City College Press, 1992), pp. 127–38.

sis of market phenomena, has universal properties and characteristics concerning the human condition from which the general laws of economics can be derived. As a result, Mises strongly opposed the highly popular positivist and historicist ideas of his time. The essays in which he developed these ideas on the methodology of the human sciences were published as a collection in 1933.[9]

Besides his writings on capitalism, socialism, interventionism, and the monetary order, Mises also attempted to influence the course of events in Austria as a policymaker. Beginning in 1909, he was employed in the department of finance at the Vienna Chamber for Commerce, Trade, and Industry as an economic analyst. In this capacity he evaluated and made recommendations about various legislative proposals in the areas of banking, insurance, monetary and foreign-exchange policy, and public finance. In the years between the two world wars, he was a senior secretary with the Chamber, enabling him to argue with some authority on the economic policy issues confronting the Austrian government.[10]

A review of documents and memoranda he prepared for the Vienna Chamber of Commerce during the 1920s and early 1930s shows his consistent emphasis on the desirability of freeing the Austrian economy of high taxes and tariffs, foreign-exchange controls, industrial regulation and price controls, and the excessive power of special interest groups, especially trade unions to control labor markets. The general consensus of economists and others who knew Mises during this period is that he was extremely influential in moderating collectivist and inflationary policies in Austria. For

9 Ludwig von Mises, *Epistemological Problems of Economics* (New York: New York University Press, [1933] 1976); for an exposition and analysis of Mises's ideas on the logic of human action and his comparative study of capitalism, socialism, and interventionism, see Richard M. Ebeling, "A Rational Economist in an Irrational Age: Ludwig von Mises," in Richard M. Ebeling, ed., *The Age of Economists: From Adam Smith to Milton Friedman*, Champions of Freedom Series, Vol. 26 (Hillsdale, Mich.: Hillsdale College Press, 1999), pp. 69–120; Mises's theory of human action was influenced by the phenomenological method of Edmund Husserl and the sociological approach of Max Weber; see Richard M. Ebeling, "Austrian Subjectivism and Phenomenological Foundations," in Peter J. Boettke and Mario J. Rizzo, eds., *Advances in Austrian Economics*, Vol. 2A (Greenwich, Conn.: JAI Press, 1995), pp. 39–53; and Richard M. Ebeling, "Expectations and Expectations Formation in Mises' Theory of the Market Process," in Peter J. Boettke and David L. Prychitko, eds., *The Market Process: Essays in Contemporary Austrian Economics* (Brookfield, Vt.: Edward Elgar, 1994), pp. 83–95.

10 Ludwig von Mises, *Notes and Recollections* (South Holland, Ill.: Libertarian Press, 1978), pp. 71–92.

example, he was instrumental in preventing the full nationalization of the Austrian economy by a socialist government immediately after the end of the First World War. He successfully helped to redirect public and political opinion to bring the Great Austrian Inflation to an end in 1922. And in the aftermath of this monetary disaster, he played an important role in the writing of the statutes and by-laws of the National Bank of Austria, which was reconstructed under the auspices of the League of Nations in 1923.

Mises's early activities at the Chamber were interrupted in 1914 when his reserve unit in the Austro-Hungarian army was called up for active service in the First World War. For part of the next four years, he served as an artillery officer on the Russian front. Three times he was decorated for bravery under fire. Following the signing of the Treaty of Brest-Litovsk between imperial Germany and Lenin's new Bolshevik government that ended the war on the Eastern front in March of 1918, Mises was appointed the officer in charge of currency control in Austrian-occupied Ukraine. His headquarters were in Odessa. Later in the same year he was transferred to duty in Vienna to serve as an economic expert for the Austrian General Staff. In this role he was responsible for preparing memoranda on inflation, war industry, war finance, and related issues. With the end of the war, Mises returned to civilian life. Besides his duties with the Vienna Chamber of Commerce, he was appointed in late 1918 as director of the League of Nations Reparations Commission for the settlement of prewar debts and war claims. He held this position until 1920.

In 1913, Mises had been granted the right to teach at the University of Vienna as a *Privatdozent,* or unsalaried lecturer; in 1918, he was promoted to the title of Professor Extraordinary. Except during the war, he taught a course at the university almost every semester until 1934, thus influencing a new generation of young Viennese and foreign scholars. He also cofounded and served as vice president of the Austrian Economic Society. In 1920, Mises began a *Privatseminar,* or private seminar, that normally met twice a month from October to June at his Chamber office. This seminar brought together a group of Viennese scholars in economics, political science, philosophy, sociology, and law, many of whom went on to become world-renowned scholars in their respective fields.[11] Almost

11 Mises, *Notes and Recollections,* pp. 93–100.

to a man, the participants recalled that the seminar was one of the most rigorous and rewarding experiences of their lives.[12]

One other singularly important activity of Mises during this period was his founding of the Austrian Institute for Business Cycle Research in 1926. With the future Nobel laureate, twenty-seven-year-old Friedrich A. Hayek, as the first director, the Institute was soon internationally recognized as a leading center for economic forecasting and policy analysis in Central Europe.[13] Shortly after it was founded the Institute began to be commissioned by the League of Nations to prepare reports and studies on the economic situation in Central and Eastern Europe. When, in 1931, Hayek accepted an appointment at the London School of Economics, another young Austrian economist, Oskar Morgenstern, assumed the position of Institute director. Morgenstern remained the director until 1938, when Nazi Germany annexed Austria. Mises served as the Institute's vice president until 1934.

In March of 1934, William E. Rappard, cofounder and director of the Graduate Institute of International Studies in Geneva, Switzerland, wrote to Mises in Vienna inquiring if he would be willing to accept a visiting professorship in international economic relations.[14] Mises accepted the appointment and assumed his responsibilities at the Graduate Institute in October of 1934. Shortly after arriving in Geneva, he began a project he had in mind for many years, namely the writing of a comprehensive treatise on economics. Apart from his light teaching responsibilities (one course and one seminar a semester), most of his time during the next six years was devoted to this project. In May of 1940, as Europe was falling under the dark cloud of Nazi occupation, this monumental work, *Nationalökonomie*, was published in Switzerland.[15] It served as the basis for his later English-language treatise, *Human Action*, published in 1949.

12 For recollections of Mises's *Privatseminar* by former members, see the appendix in Margit von Mises, *My Years with Ludwig von Mises* (Cedar Falls, Iowa: Center for Futures Education, 2nd ed., 1984), pp. 199–211; see also Earlene Craver, "The Emigration of the Austrian Economists," *History of Political Economy*, Vol. 18, No. 1 (1986), pp. 1–32.

13 See Richard M. Ebeling, "Friedrich A. Hayek: A Centenary Appreciation," *The Freeman* (May 1999), pp. 28–33.

14 See Richard M. Ebeling, "William E. Rappard: An International Man in an Age of Nationalism," *The Freeman* (January 2000), pp. 39–46.

15 Ludwig von Mises, *Nationalökonomie: Theorie des Handelns und Wirtschaftens* (Munich: Philosophia Verlag, [1940] 1980).

In June of 1940, Mises resigned from his position at the Graduate Institute. On July 4, he left Geneva for the United States. After a harrowing journey across France and Spain to Lisbon, Portugal, he embarked on an ocean liner on July 24, and he arrived in New Jersey on August 2, 1940.

Mises's first years in the United States—the period when the essays in this volume were written—were not easy ones. He experienced great difficulty in finding a permanent teaching position, partly because of his age (he was fifty-nine years old when he arrived) and partly because of the intellectual climate that then prevailed. His was a voice for an older classical liberalism and free-market capitalism that was out of step with the popular trends of socialism, interventionism, and Keynesian economics embraced by a large majority of American academics and policymakers.

However, Mises was supported through research grants generously supplied by the Rockefeller Foundation as well as an affiliation with the National Bureau of Economic Research. He completed two works that were both published in 1944: *Omnipotent Government: The Rise of the Total State and Total War*[16] and *Bureaucracy*.[17] A third book, written shortly after his arrival in the United States, *Government and Business*, remained unpublished until just recently, when it appeared under the title *Interventionism: An Economic Analysis*.[18]

Not until 1945 was Mises appointed to an academic post as a visiting professor in the Graduate School of Business at New York University, a position he retained until his retirement in 1969 at the age of eighty-eight. During almost a quarter of a century of teaching in the United States, he was able to train a new American generation of "Austrian" economists.[19] He also published a number of significant books, including *Planning for*

16 Ludwig von Mises, *Omnipotent Government: The Rise of the Total State and Total War* (Spring Mills, Pa.: Libertarian Press, [1944] 1985).

17 Ludwig von Mises, *Bureaucracy* (Spring Mills, Pa.: Libertarian Press, [1944] 1983).

18 Ludwig von Mises, *Interventionism: An Economic Analysis* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1998).

19 On the history and ideas of the Austrian School of economics, see Ludwig M. Lachmann, "The Significance of the Austrian School of Economics in the History of Ideas," [1966] in Richard M. Ebeling, ed., *Austrian Economics: A Reader*, Champions of Freedom Series, Vol. 18 (Hillsdale, Mich.: Hillsdale College Press, 1991), pp. 17–39; and Richard M. Ebeling, "The Significance of Austrian Economics in Twentieth-Century Economic Thought," in Richard M. Ebeling, ed., *Austrian Economics: Perspectives on the Past and Prospects for the Future*, Champions of Freedom Series, Vol. 17 (Hillsdale, Mich.: Hillsdale College Press, 1991), pp. 1–40.

Freedom,[20] *The Anti-Capitalistic Mentality,*[21] *Theory and History: An Interpretation of Social and Economic Evolution,*[22] *The Ultimate Foundation of Economic Science,*[23] and *The Historical Setting of the Austrian School of Economics.*[24]

When Ludwig von Mises died on October 10, 1973, at the age of ninety-two, there is no doubt that he left a profound and lasting legacy as an economic theorist and a champion of liberty.

Economic Nationalism in the Period Between the Two World Wars

The catastrophe of the Second World War was, in Mises's view, the logical culmination of the political and economic policies of the 1920s and 1930s. Having after 1914 abandoned the principles and practice of economic liberalism and free trade, Europe (and the world in general) had created a political environment in which social conflict within countries and war between nations was almost inevitable.

In a social setting of free-market capitalism, in which governments basically confined themselves to the equal protection of each person to his liberty and property before the law, sectional and national conflicts were practically nonexistent. Directed by the incentives of market opportunities, every individual found his place in the social system of division of labor. Labor, capital, and commodities migrated to those places offering the most attractive returns. Production and employment were localized where market profitability suggested the greatest productive advantage.

Moreover, in such a free-market setting, rivalries between competitors

20 Ludwig von Mises, *Planning for Freedom* (South Holland, Ill.: Libertarian Press, 4th ed., 1980).

21 Ludwig von Mises, *The Anti-Capitalistic Mentality* (Spring Mills, Pa.: Libertarian Press, [1956] 1990).

22 Ludwig von Mises, *Theory and History: An Interpretation of Social and Economic Evolution* (Auburn, Ala.: Ludwig von Mises Institute, [1957] 1985).

23 Ludwig von Mises, *The Ultimate Foundation of Economic Science: An Essay on Method* (Kansas City, Kans.: Sheed Andrews and McMeel, [1962] 1978).

24 Ludwig von Mises, "The Historical Setting of the Austrian School of Economics," [1969] in Bettina Bien Greaves, ed., *Austrian Economics: An Anthology* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996), pp. 53–76.

were private affairs in which their only weapons were cheaper and better products to capture more consumer business. With governments limited to the protection of life and property, national boundaries were merely administrative lines on maps with no economic significance. Men, money, and goods moved freely and unhindered by politically imposed barriers.

In the generally free-market order before 1914, most of the world's monetary system was based on a market-based commodity: gold. Though governments through national central banks relegated to themselves control over the money supply, they managed the monetary system by the "rules" of the gold standard. The quantity of money was determined by the profitability of gold mining based on the demand for gold for monetary as well as commercial uses. The purchasing power of money was set by the market forces of supply and demand, and only to a relatively limited extent by the manipulations of governments pursuing various and sundry political goals.

It is always easy to look back at earlier times and to picture them nostalgically as "golden ages" from which the present represents a tragic fall. In fact, however, the period before the First World War possessed many of the characteristics summarized in Mises's conception of a world of free trade and free markets.[25] It is true that even before the First World War destroyed this epoch of classical liberalism, the world had been returning to policies of governmental intervention and trade restrictions, with imperial Germany in the lead.[26] Nonetheless, the era before 1914 was a world characterized by what Gustav Stolper called the epoch of the "three freedoms": freedom of movement for men, for goods, and for money.[27] In addition, the world enjoyed an unprecedented level of peace. Conflicts and even wars did occur, but, under the classical liberal ideal of individual freedom, private property, and limited government, wars—especially in Europe—were

25 See Mises, *Omnipotent Government*, pp. 95–96; also John Maynard Keynes, *The Economic Consequences of the Peace*, in D. E. Moggridge, ed., *The Collected Works of John Maynard Keynes* (New York: Macmillan Co., [1919] 1971), pp. 5–7.

26 See Hermann Levy, *Economic Liberalism* (London: Macmillan Ltd., 1913), p. 1; Wilhelm Röpke, *German Commercial Policy* (London: Longman, Green and Co., 1934); and Gustav Stolper, *German Economy, 1870–1940* (New York: Reynal and Hitchcock, 1940), pp. 60–92.

27 Gustav Stolper, *This Age of Fable: The Political and Economic World We Live In* (New York: Reynal & Hitchcock, 1942), pp. 7–8.

few in number, short in duration, and restrained in their damage to life and property.[28]

The First World War ushered in an era of economic planning, price and production controls, foreign-exchange regulations, restrictions on international trade, capital movements, and migration, and a flood of paper-money inflations to cover the costs of war. When the war ended on November 11, 1918, the world had to reconstruct the political and economic landscape. The political map of Europe was radically redrawn, with the German, Austro-Hungarian, and Russian empires carved up to make a tapestry of new and differently shaped nation-states in Central and Eastern Europe. But with the emergence of political nationalism came the rise of economic nationalism.[29] Each of the new successor states imposed tariff barriers and artificially stimulated the creation of greater agricultural or industrial sectors in their economies. These policies were enacted through subsidies, monopoly rights of production and sale, import and export regulations and quotas, tax incentives, foreign exchange controls, and restrictions on the free movement of capital and labor.[30]

Each of these nations of Europe considered that political independence required a corollary: economic independence. The ideal of "autarky" —economic self-sufficiency—increasingly became the basis upon which the governments of these countries judged the appropriateness of any economic policy.[31] Domestic and foreign economic policies by one country became the cause for suspicion and planned counter-policy by its neigh-

28 See Richard M. Ebeling, "World Peace, International Order and Classical Liberalism," *International Journal of World Peace* (December 1995), pp. 47–68.

29 See T. E. Gregory, "Economic Nationalism," *International Affairs* (May 1931), pp. 289–306; Lionel Robbins, "The Economic Consequences of Economic Nationalism," *Lloyds Bank Limited Monthly Review* (May 1936), pp. 226–39; William E. Rappard, "Economic Nationalism," in *Authority and the Individual, Harvard Tercentenary Conference of Arts and Sciences* (Cambridge, Mass.: Harvard University Press, 1937), pp. 74–112; Michael A. Heilperin, *Studies in Economic Nationalism* (Geneva: Libraire E. Droz, 1962).

30 See Leo Pasvolsky, *Economic Nationalism of the Danubian States* (New York: Macmillan Co., 1928); Antonin Basch, *The Danubian Basin and the German Economic Sphere* (New York: Columbia University Press, 1943); Frederick Hertz, *The Economic Problems of the Danubian States: A Study in Economic Nationalism* (London: Victor Gollancz, 1947).

31 See A. G. B. Fisher, *Economic Self-Sufficiency* (Oxford: Clarendon Press, 1939); and Leo Grebler, "Self-Sufficiency and Imperialism," *Annals of the American Academy of Political and Social Science* (July 1938), pp. 1–8.

bors. Nor did the countries of Western Europe fully return to the freer policies that prevailed before 1914; they, too, retained various forms of the controls that had been implemented during the war. Consequently, a climate of antagonism, fear, and economic warfare came to dominate the arena of international politics.

Furthermore, whereas the gold standard had formed the basis of the monetary system of virtually all major countries before the First World War, in the postwar era monetary nationalism joined economic nationalism as the new currency order of the world.[32] Under the prewar gold standard, a unit of each nation's currency was fixed as a certain quantity of gold, exchangeable on demand at that ratio at any representative bank. Through this common gold connection, the national currencies of the world were bound into a unitary and international monetary order.[33]

After the monetary chaos of the immediate postwar period, during which some currencies, like Germany's, were literally destroyed by hyperinflation, there was an attempt to return to monetary stability and a weaker form of the gold standard.[34] Most governments, however, were unwilling or unable to follow the "rules of the game" required under the gold standard. Money was no longer a market-based medium of exchange through which were facilitated the domestic and global transactions of private trade and investment. Instead, money was increasingly viewed as a tool of national economic policy. Money's domestic purchasing power and external foreign-exchange value were things to be manipulated by governments to further "national purposes." With the advent of the Great Depression in 1929, these tendencies merely continued and intensified.[35]

There were half-hearted attempts to restore international trade and

32 See F. A. Hayek, "Monetary Nationalism and International Stability" [1937] in Stephen Kresge, ed., *The Collected Works of F. A. Hayek, Vol. VI: Good Money, Part II* (Chicago: University of Chicago Press, 1999), pp. 27–100; and Lionel Robbins, *Economic Planning and International Order* (London: Macmillan Ltd., 1937), pp. 280–301.

33 See Wilhelm Röpke, *International Order and Economic Integration* (Dordrecht, Holland: D. Reidel Publishing Co., 1959), pp. 75–77; also T. E. Gregory, *The Gold Standard and Its Future* (New York: E. P. Dutton, 1935), pp. 1–21; and Moritz J. Bonn, "The Gold Standard in International Relations," in William E. Rappard, ed., *Problems of Peace,* 8th Series (Freeport, N.Y.: Books for Libraries, [1934] 1968), pp. 163–79.

34 See Leland B. Yeager, *Experiences with Stopping Inflation* (Washington, D.C.: American Enterprise Institute, 1981), pp. 45–98.

35 See Frederic Benham, "The Muddle of the Thirties," *Economica* (February 1945), pp. 1–9.

monetary order in the 1920s and 1930s, but they all failed.[36] The forces of political and economic nationalism, the emerging idea of economic planning, the pragmatic politics of interventionist policies to foster the special interests of domestic groups, and the formal abandonment of the gold standard in favor of purely fiat monies exacerbated the disintegration of the international economic order.[37] In the 1930s, governments increased their subsidies and protectionist supports to industry and agriculture, their interference in the management and control of private enterprise, their monetary and fiscal manipulations to influence domestic output and employment, their taxing policies to modify the distribution of wealth, and their regulation of foreign trade and foreign-exchange rates.[38] The benefits of a free international economic order were forgotten.[39]

With the growth of political and economic nationalism came political

36 See William E. Rappard, *Post-War Efforts for Freer Trade* (Geneva: Geneva Research Centre, 1938) and "The Common Menace of Economic and Military Armaments," [1936] in *Varia Politica, Republication of Essays by William Rappard on the Occasion of His Seventieth Birthday* (Zurich: Editions Polygraphics, 1953), pp. 76–100; Jacob Viner, "International Economic Relations and the World Order," in Walter H. C. Laves, ed., *The Foundations of a More Stable World Order* (Chicago: University of Chicago Press, 1940), pp. 42–45; *Commercial Policy in the Interwar Period: International Proposals and National Policies* (Geneva: League of Nations, 1942); and Ragnar Nurkse, *International Currency Experience: Lessons of the Inter-war Period* (Princeton, N.J.: Princeton University Press, 1944).

37 See Ludwig von Mises, "The Disintegration of the International Division of Labor," [1938] in Richard M. Ebeling, ed., *Money, Method, and the Market Process*, pp. 113–36; and Wilhelm Röpke, *International Economic Disintegration* (Philadelphia, Pa.: Porcupine Press, [1942] 1978).

38 See Moritz J. Bonn, "Introductory Address," in *The State and Economic Life, A Record of a First International Study Conference* (Paris: International Institute of Intellectual Cooperation, 1932), pp. 7–15; J. B. Condliffe, "Vanishing World Trade," *Foreign Affairs* (July 1933), pp. 645–56; Lionel Robbins, *The Great Depression* (London: Macmillan Ltd., 1934); Gustav Stolper, "Politics versus Economics," *Foreign Affairs* (April 1934), pp. 357–76; P. W. Martin, "The Present Status of Economic Planning: I. An International Survey of Governmental Economic Intervention," *International Labour Review* (May 1936), pp. 619–45; Henry J. Tosca, *World Trade Systems* (Paris: International Institute of Intellectual Cooperation, 1939); Margaret S. Gordon, *Barriers to World Trade: A Study of Recent Commercial Policy* (New York: Macmillan Co., 1941); and Richard M. Ebeling, "Liberalism and Collectivism in the 20th Century," in Alexsandras Shtromas, ed., *The End of "Isms"? Reflections on the Fate of Ideological Politics After Communism's Collapse* (Cambridge, Mass.: Blackwell Publishers, 1994), pp. 69–84.

39 See J. B. Condliffe, "The Value of International Trade," *Economica* (May 1938), pp. 123–37.

and economic tyranny. Dictators emerged all across the face of Central and Eastern Europe. Freedom was under attack as never before in modern times.[40] Political and economic nationalism in Europe finally culminated in the barbarism and destruction of World War II.

International Reconstruction and Reform after the Second World War

Even before the worst carnage of the war had occurred, economists, political scientists, historians, sociologists, and men of practical politics had begun to ask themselves how the world had reached such a state of disorganization and chaos and how the era to come after the war could be made better. At first, when the outcome of the war was still uncertain, the analysis often focused on what the alternative international orders might look like were the postwar world to be primarily totalitarian or democratic, or if there were to be a division of the globe between the two rival political systems.[41] As the war progressed, it became clear that the Western democracies would triumph, with fascist and Nazi totalitarianism unconditionally defeated. Accordingly, the world was faced with the serious need to reconstruct the international political and economic order. A general consensus existed, especially among economists, that the world required a reversal of the economic nationalism and protectionism that had plagued the interwar period. There was plenty of evidence that such policies only

40 William E. Rappard, "Nationalism and the League of Nations Today," in *Problems of Peace*, 8th Series (New York: Books for Libraries Press, [1934] 1968), pp. 17–19; also by Rappard, *The Crisis of Democracy* (Chicago: University of Chicago Press, 1938); and William Henry Chamberlin, *Collectivism: A False Utopia* (New York: Macmillan Co., 1938).

41 See J. B. Condliffe, *The Reconstruction of World Trade: A Survey of International Economic Relations* (New York: W. W. Norton & Co., 1940); Michael A. Heilperin, "Totalitarian Trade," *World Affairs Interpreter* (January 1941), pp. 1–8; Lewis L. Lorwin, *Economic Consequences of the Second World War* (New York: Random House, 1941); Douglas Miller, *You Can't Do Business with Hitler* (Boston: Little, Brown and Co., 1941); Thomas Reveille, *The Spoil of Europe: The Nazi Technique in Political and Economic Conquest* (New York: W. W. Norton, 1941); Howard Ellis, "The Problems of Exchange Systems in the Postwar World," *American Economic Review* (May 1942), pp. 195–205; Frank Munk, *The Legacy of Nazism: The Economic and Social Consequences of Totalitarianism* (New York: Macmillan Co., 1943); and Jacob Viner, *Trade Relations Between Free Market and Controlled Economies* (Geneva: League of Nations, 1943).