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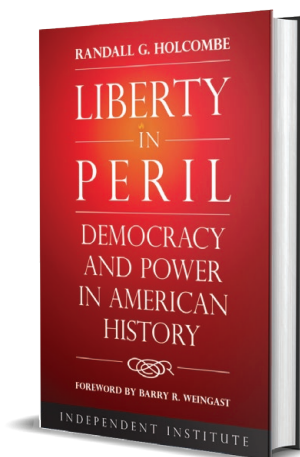
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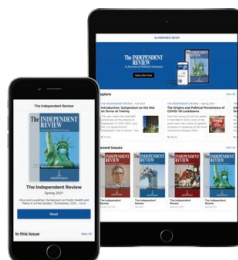
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“Foreign Policy and Domestic Policy Are but One System”

Mises on International Organizations and the World Trade Organization

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CARMEN ELENA DOROBĂȚ

The unsuccessful Doha Round and the future of the World Trade Organization (WTO) have been the subject of intense debate recently. The misadventures of the past ten years of trade talks have led many scholars to become more pessimistic about the future of multilateral trade agreements, while the optimists keep busy suggesting alternatives for current negotiations. The one issue both sides agree upon is that the existence of an international organization is a necessary, inevitable step toward international free trade. As a consequence of this general agreement, suggested alternatives revolve around reforming the negotiations arena and rehashing its role.

Once revamped, can the WTO indeed make a lasting contribution to free trade? This article attempts to answer this question by outlining Ludwig von Mises’s views

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on the role and usefulness of international organizations and trade agreements. Unlike our contemporaries, Mises believed that the failure of international organizations was inevitable in the presence of domestic economic intervention. Whereas negotiating governments are attached to the idea of interventionism and thrive on anticapitalistic mentalities, peace and free trade require the unhampered development of free enterprise. In Mises's view, as long as the inherent tension between domestic and foreign policy persists, international trade-planning bodies cannot bring about free trade.

The purpose of this article is therefore twofold. First, it highlights Mises's contributions to the topic of foreign-trade policy, which have so far received little attention. Mises offered noteworthy insights on the shortcomings of international organizations established after World War II, and his remarks foreshadow half a century of international trade negotiations. This stands as a testimony to his acumen and mastery of the topic. Second, following Mises, I argue that the current impasse of WTO negotiations was caused by the pursuit of international agreements that clash with domestic policies in a manner similar to the League of Nations' failure to preserve peace in the early twentieth century.

To this end, the article is structured as follows. The first section briefly outlines the international economic landscape—that is, the international trade system and the free-trade movement, from the beginning of the twentieth century up to the present day. The next section turns to Mises's contributions, as set out in his works and private correspondence. I briefly look at Mises's career as an applied economist to establish his expertise on international policy issues. Further, I show that Mises witnessed in the interwar period the conflict between the agenda of international organizations and the economic nationalism of European countries. Thus, Mises cautioned his readers that peace and prosperity were first and foremost an ideological issue and analyzed in detail how domestic interventionist mentalities would necessarily frustrate international efforts for peace and free trade. The next section then turns to the current problems of the WTO and the Doha Round. I argue that Mises offers a better framework for understanding the predicament of the official international free-trade movement than current alternative explanations. The final section discusses briefly the future of the international trade system by presenting the pros and cons of suggested improvements to the WTO as well as Mises's own alternative solution for the future of international trade.

The International Economic Landscape before and after the Two World Wars

Throughout the nineteenth century and up to World War I, western European economies experienced a “golden age” of classical liberalism and free trade. An international gold standard and a network of trade agreements—whose foundational

stone was the Cobden–Chevalier Treaty of 1860 between England and France—provided a sound economic basis for a long period of peace among European countries. In turn, a peaceful Europe allowed foreign trade to flourish on the continent as well as across the world (Daudin, Morys, and O’Rourke 2008, 2). As a consequence, the more developed West became a standard of prosperity that the majority of eastern European economies wished to attain by modernizing and industrializing their production structure (Berend 2000). At the beginning of the twentieth century, however, liberalism was showing signs of weakness as the world was slowly returning to government interventions and trade restrictions (Ebeling 2000), a situation that brought about and was worsened by the onset of World War I.

In the interwar period, trade, migration, and capital restrictions proliferated. Most Western economies saw these economic measures as necessary compromises, given the political circumstances in Europe at the time.¹ Nonetheless, as economic historian Alan Milward points out, “[T]he inter-war experience imposed distinct limitations in practice on the ease with which trade, people and capital could flow across national boundaries” (2005, 161). The reason behind these restrictions, Milward argued, was the “constant tension in all Western European countries between, on the one hand, the widely accepted idea that in the long run prosperity depended on a return to more open economies with a relatively free multilateral system of trade and payments, and, on the other hand, the determination to reconstruct the economy and society in the way in which the purely national mandate for change demanded” (162).

This inherent tension eventually “pushed [European countries] toward economic nationalism in their foreign policies” (Ebeling 2009, 171) and tipped the balance in favor of restricted foreign trade and more interventionist policies. In eastern Europe, the situation was even more severe, as “fundamental nationalism urged . . . a split with the Western dominated world system, or even a total rejection of Western values and market capitalism” (Berend 2000, 315–16). The goal of political independence became indelibly tied with that of economic independence, even though attaining peace in Europe would have required unhampered markets and a drastic fall in protectionism (Milward 2005, 165).

World War I—as well as the Great Depression—thus represented a turning point in European history that marked the definitive departure from classical-liberal ideas in favor of economic and political nationalism. The 1920s and 1930s “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” (Ebeling 2000, xix). Unsurprisingly, then, the idea of peace and international economic cooperation failed to grow any roots in interwar Europe, and “the attempts . . . to recreate a multilateral framework

1. The most notable exceptions were Germany and Italy, which strongly advocated self-sufficient, autarchic economic policies. See Milward 2005.

for international trade . . . [were not] very successful” (Milward 2005, 162). These latent conflicts among countries eventually boiled over in World War II.

After 1945, economists and policymakers alike understood that political nationalism had been a recipe for disaster. At the same, they were not interested in returning to the golden age of classical liberalism, a system that they believed no longer fit the political and economic context of a war-ridden Europe. As a consequence, according to Jan Tumlir and Laura La Haye, “it was generally accepted, even by the U.S. government, that the postwar reconstruction of the European economies would have to be planned and closely controlled by their governments” (1981, 372). The ailing world could not be left to the market but instead had to be cared for by the welfare state as well as by intergovernmental organizations that would plan and manage international economic relations among states.² At the same time, state central planning made an even more forceful return in eastern Europe, which embraced full-blown socialism and barricaded itself from the rest of the world politically and economically. The anticapitalistic mentality also swayed the majority of developing countries, which sought to achieve prosperity by renouncing free-market principles.

In the second half of the twentieth century, military conflicts returned to the international arena against the backdrop of the Cold War. In reaction to real or imagined threats, the idea of a European Community became increasingly appealing and brought about the creation of a free-trade area and, later on, of a political union in western Europe (Shanks 1971). Nonetheless, the protectionist policies of European member states were only repackaged and shifted from national to union borders (Apolte 2010). At the same time, the United States needed heavy monetary inflation to fuel the Vietnam War and the Great Society programs of the Johnson administration.³ As the general expansion of money supplies and bank credit continued after World War II, Bretton Woods institutions were unable to reestablish a sound monetary foundation for international trade. By 1971, “closing the gold window” became inevitable in order to “stabilize” the dollar. Unsurprisingly, the blow given to the international monetary system represented an ample setback for the international trade system.

As a consequence, by 1980 economists and policymakers alike turned away once more from free trade, and nontariff barriers began replacing the old-fashioned customs duties of previous decades. Governments of the world unwaveringly followed what Jagdish Bhagwati (1988) refers to as “the law of constant protection”: although

2. After World War II, nations “envisaged an economic order jointly administered by governments through the international organizations for money and trade” (Tumlir and La Haye 1981, 367). For instance, Bretton Woods institutions were created to restore the international monetary system.

3. Joseph Salerno argues that one of the main advantages of military conflict, underlying governments’ desire for warfare, is the fact that “it provides the ruling class with an extraordinary opportunity to intensify its economic exploitation of the domestic producers through emergency taxes, monetary inflation, conscription of labor, and the like” (2008, 450).

the General Agreement on Tariffs and Trade⁴ had been somewhat successful in convincing countries to lower their trade-protective duties, alternative economic restrictions were introduced to compensate for these reductions.

The international trade system only continued this trend thereafter. Since 2001, the U.S.-led war on terror—a multilateral war against a vague, unidentified enemy—has eroded relationships among countries of the world and led to multiple “overseas contingency operations” that have only undermined mutual trust. Moreover, recurring economic crises have revitalized attempts to achieve economic recovery via protectionism. The first decade of the twenty-first century opened wide the gates for more government control of markets and trade flows as well as for the inflationary dangers of now pure fiat money regimes.

Mises’s Views on International Organizations

During the first half of the twentieth century, Ludwig von Mises was deeply involved in the economic policy problems of his time, working as a policy advocate for the Vienna Chamber of Commerce (Kammer) and the Geneva Institute for International Studies. His position at the Kammer obliged Mises to devise second-best policy proposals “in an imperfect world dominated by collectivist and interventionist ideas and practices” (Ebeling 2010). Although retaining his uncompromising viewpoint, Mises nevertheless rose to the task. His reports were always thoroughly researched and well argued, “his statistical knowledge of ‘the facts’ . . . was precise and minute” (Ebeling 2010), and the Kammer gained a good reputation due to his work. Moreover, Mises himself also enjoyed a great deal of success: “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” (Ebeling 2000, xiii).

These professional experiences in Europe equipped Mises with the necessary skills to bridge theory and practice, skills reflected also in his balanced approach to trade policy.⁵ In his theoretical work, he repeatedly stressed the benefits of the unhampered division of labor, which increases both the quantity and the quality of world output. In practice, he was an ardent supporter of nineteenth-century *laissez-faire* ideas and of classical-liberal policies. The pre-1914 era embodied for Mises most of what he conceived of as the benefits of economic freedom; therefore, at the time, he viewed favorably any international organization that could and would restore the

4. The General Agreement on Tariffs and Trade was signed in 1947 and was replaced by the WTO in 1995.

5. For example, Mises conceded that if “all import restriction were lifted today, the greatest difficulties would be evident for a short time” ([1929] 1996, 36). Thus, he sometimes tolerated the idea that a gradual reduction of tariff barriers over several years or some mild trade retaliation was acceptable if no better option were available (see Mises [1916] 2012a). Nevertheless, he warned that such gradual liberalization “only prolongs the time during which the undesirable consequences of the intervention continue to be felt” ([1929] 1996, 36).

liberal policies existing before World War I (Hülsmann 2007). He was thus a supporter of the League of Nations, precursor of the present-day United Nations, an international organization aimed at maintaining world peace in the interwar period (Ebeling 2000).

Yet during the 1920s and 1930s, Mises personally witnessed “the replacement of . . . liberal ideas, today stigmatized and laughed at as ‘orthodox,’ by so-called more realistic doctrines of power politics” ([1940] 2000c, 21). He realized that the members of the League of Nations did not seek to return to any *laissez-faire* policies. Economic nationalism developed freely after 1918, and in Mises’s view it became solely “responsible for the revival of the spirit of war and conquest” ([1941] 2000d, 19).⁶ In such a world, Mises thought, “it is hopeless to abolish war” ([1941] 2000d, 19).⁷ The League of Nations—which he had previously endorsed—became by 1941 “a terrible failure and a painful disillusionment” ([1941] 2000d, 2). Shortly after his arrival in the United States, his disappointment was clear: “the optimism of Bentham, Cobden and Bastiat was not justified. History went another way. . . . ‘Nationalism’ is the characteristic feature of modern foreign policy” ([1941] 2000d, 2).

Mises argued that the only way for a thorough reconstruction of the world economy following World War II’s “moral and material collapse without precedent” ([1941] 2000d, 1) was capital accumulation through saving and investment. But he also became increasingly convinced that “this reconstruction cannot be undertaken from without, it must come from within. It is not simply a matter of economic technique, still less of engineering; it is a matter of *social morale* and of *social ideologies*” ([1940] 2000c, 28, emphasis added). Mises went on: “What ranks above all else for economic and political reconstruction is a *radical change of ideologies*. Economic prosperity is not so much a material problem; it is, first of all, an *intellectual, spiritual, and moral problem*” ([1944] 2000a, 42, emphasis added).

Thereafter, Mises believed the peace and prosperity the world needed after the war could be brought about only if the public mentality supported “the maintenance of free trade, the abolition of government interference with business, the abandonment of economic nationalism” ([1941] 2000d, 17). In his view, what countries needed first and foremost was “the *ideology of economic freedom and private enterprise* and the initiative that makes for the accumulation and maintenance of capital as well as for the employment of the available capital for the best possible and cheapest

6. Mises argued that nationalism, in the broader sense, has as a primary underlying cause economic nationalism: “[N]ationalism is neither hatred, nor chauvinism, nor a superiority complex . . . these facts have nothing to do with the wars between Germany and France” ([1941] 2000d, 18). In his view, it was government intervention in the domestic economy and complementary trade restrictions that had made military conflict appealing to the citizens of Europe: “[I]n the world of state interventionism, the territorial expansion of his own state and nation is of the utmost importance to each individual citizen. Every benefit that he derives from his own government is the more valuable the larger its territory is. Every new conquest further restricts the area in which discrimination is applied against him” ([1941] 2000d, 11).

7. For a detailed analysis of the economic incentives for war and imperialism as well as the interdependence between social mentalities and the logic of war making, see Salerno 2008.

satisfaction of the most urgent wants of the consumers” ([1952] 1990d, 170, emphasis added).

Mises’s general outlook on the importance of the ideology of peace and economic freedom made him question the substratum and future prospects for any international forum aimed at promoting peace and economic cooperation. He believed that such an international organization would face insurmountable obstacles in curbing increased domestic government intervention. As a consequence of this belief, Mises also became skeptical of the official international free-trade movement and the international trade-planning bodies that took shape after World War II.⁸

Each of these remarks warrants fuller discussion.

One of Mises’s overarching concerns was the new meaning of commercial treaties and multilateral negotiations in the age of rising interventionism. In the heyday of *laissez-faire*, “commercial treaties were considered a means of abolishing, step by step, trade barriers and all other measures of discrimination against foreigners” (Mises 1944, 250). But after the two world wars, the situation had changed significantly: imports were again considered to be detrimental to a nation’s economic prosperity. As the mercantilist mentality was making a forceful return, trade agreements became instruments to prevent imports and were sought after “as long as they hindered the other nation’s export trade and seemed to encourage one’s own” (Mises 1944, 250).

If trade agreements had become protectionist instruments in the twentieth century, it was in part due, according to Mises, to the idea that reciprocity and multilateralism are mandatory for beneficial international trade. In truth, he argued, the benefits of free trade arise unilaterally by the elimination of one’s own tariff barriers and by the importation of goods that are produced relatively cheaper in other countries than in one’s own. Nonetheless, Mises observed, at the root of the official free-trade movement lay the “widespread error . . . that the Ricardian Law of Comparative Costs presupposes that the other countries too engage in free trade.”⁹ He understood well that if one’s trading partners are protecting their domestic markets, overall productivity and the international division of labor are necessarily affected. Nevertheless, Mises stressed the fact that “no country can sidestep such repercussions

8. During Mises’s career in Europe, because his topic of expertise was international economic relations, he had established numerous connections in the official European free-trade movement (Hülsmann 2007, 581). Although energetic at first, Mises’s involvement with the movement was short-lived. On the one hand, by his own admission, he had a profound distaste for any government job and so avoided such involvement: “As a matter of principle, I do not belong to any political or economic-political organizations” (Mises to *Freihandelsbund gegen Teuerung und Wirtschaftszwang*, November 11, 1924, Mises Archive, 80:60, Special Archive for Historico-Documentary Collections, Moscow). On the other hand, as Guido Hülsmann explains, “among his international associates . . . [Mises] saw political maneuvering, nepotism, and other forms of questionable behavior at the expense of the free-trade cause” (2007, 581). As a consequence of these factors, as soon as the opportunity presented itself, Mises pulled away from the official free-trade movement and, “disillusioned[,] . . . returned his focus to the battle of ideas” (Hülsmann 2007, 582).

9. Mises to Faustino Ballvé, December 26, 1950, Ballvé Files, Grove City Archive, Grove City College Library, Grove City, Pennsylvania.

by socializing at home and thus by reducing its own productivity.”¹⁰ He continued: “Even if all other countries cling to protection, every nation best serves its own interests by free trade” ([1943] 1990a, 142).

In light of the changed meaning of trade agreements, Mises anticipated that most countries’ foreign policy would be one of “moderate protectionism,” an approach he discredited from the start. He considered interventionism to be a middle-of-the-road policy, an unstable “third way” between socialism and capitalism (see Mises [1950] 1974), and by the same token he established that foreign policy could not be genuinely split into *degrees of openness*. In support of his contention, Mises convincingly argued that a permanent policy of low trade barriers is inconsistent. He wrote: “Either trade barriers are useful, then they cannot be high enough; or they are harmful, then they have to disappear completely” ([1943] 1990a, 135). Thus, if interventionism, when consistently carried out, becomes socialism, moderate protectionism will in like manner necessarily become all-encompassing protectionism. Mises’s somber conclusion was that “if people regard imports as an injury, they will not stop anywhere on the way toward autarky” (1944, 250).

In addition, Mises thought protectionist intentions underlying trade agreements and international negotiations would not be openly acknowledged by national administrations. As a consequence, muddled rhetoric would necessarily take hold of international negotiations in order to protect the overgrown structure of government intervention in domestic markets. Mises candidly wrote: “U.S. representatives occasionally indulge in talk of free trade. This is pure illusion. American agricultural policies—parity prices, subsidies, limitation of crop surfaces . . . would collapse overnight if foreign imports were freely allowed into the country. Can you imagine a present-day England or present-day France with a regime of free trade?”¹¹ Mises was also mindful that trade-restricting policies are underlined not by the public interest, but by more corrupt motivations. Although a policy of free trade would tremendously benefit consumers, domestic producers will invariably ask to be sheltered from foreign competition. Therefore, governments’ reluctance to allow a free inflow of foreign goods is the direct result of political bias toward special-interest groups.¹² Mises explained this relationship as follows: “Each country has a system of varying privileges for individual interest groups. None of these measures would work if foreign countries were to freely supply the domestic market.”¹³

10. Mises to Ballvé, December 26, 1950, Ballvé Files, Grove City Archive.

11. Mises to Friedrich Hoening, December 6, 1951, “H” Files, Grove City Archive. Hoening was a correspondent from Sweden, seeking advice for launching a free-trade campaign.

12. According to Dwight Lee, this bias “explains a host of political perversities. It explains, for example, the difficulty politicians have cutting spending programs, which tend to concentrate benefits on organized interest groups, in order to reduce the burden on the general taxpayer. And it certainly explains the political perspective on free trade, which emphasizes the advantage in protecting existing jobs over the far greater, but much more general, advantage of better choices for consumers and improved economic productivity” (1997).

13. Mises to Hoening, December 6, 1951, “H” Files, Grove City Archive.

Last but not least, in the first half of the twentieth century, the international monetary system had collapsed due to expansionist monetary policies. The two world wars brought about an epoch of easy money and bank credit expansion, justified by the government-spending doctrine and the war doctrine. “Beggary-neighbor” policies involved not only trade restrictions but also massive competitive currency devaluations,¹⁴ which Mises considered to have eroded the very foundation of international exchanges. Monetary policy was “transformed into a weapon used in both domestic class war and in international conflict. The governments were eager to use it against domestic groups and against foreign countries. The result was chaos” ([1944] 2000b, 88). Because these domestic inflationary policies were incompatible with stable exchange rates, they led to the collapse of the international gold standard.

Mises thus argued that before a multilateral trade framework could be developed, the international monetary system had to be reconstructed. The reform was straightforward: all nations had to do was to “strictly abstain from all endeavors to inflate [their] currency system, either by the issue of additional paper money or by bank credit expansion. Nothing else is needed” ([1944] 2000b, 73). The gold standard had prevailed as the *international* monetary system before 1914 only because states believed that having a gold currency was also the best *domestic* monetary system. As a consequence, Mises argued, “sound monetary policy must begin at home” and must be designed “not as a policy for the benefit of foreign interests, but as a policy highly beneficial for a country’s own welfare” ([1944] 2000b, 102, 72). Only in such circumstances would a sound international monetary system be restored. Mises insisted that “no international agreement and no international bank¹⁵ is required for the stabilization of foreign-exchange rates. If every nation abandons all inflationary measures, stability of foreign-exchange rates will result automatically. If, on the other hand, the various nations cling to inflation, no international settlement will secure monetary stability” ([1944] 2000b, 103).

But abandoning control of the money supply and abstaining from intervention in domestic markets and trade flows were not on any government’s agenda at the time, so Mises was skeptical of the real commitment of both governments and international organizations to restore the international monetary system and free trade. Quite the contrary, he believed, “the more a country proceeds toward comprehensive

14. Governments saw—and still see—currency depreciation as a boon for a nation’s export industries and its balance of trade. Mises explained in detail why the gains that accrue to exporters are a temporary, illusory profit that are due only to the fact that prices in an economy do not change at the same time and to the same extent after an increase in the money supply. Mises’s explanation of these effects (also called “Cantillon effects”) on a country’s price structure and structure of foreign trade can be found in Mises [1907] 2012 and Mises [1938] 1990c.

15. Mises is referring to the Keynes Plan and the White Plan for monetary reconstruction, an outgrowth of which were the two Bretton Woods institutions, the International Monetary Fund and the International Bank for Reconstruction and Development. After the agreement was signed in July 1944, these institutions had as a primary goal the stabilization of exchange rates.

control of all business activities, the more it must close itself to foreign countries,”¹⁶ gravely harming international trade and private enterprise in general. In preventing this closure, Mises concluded, international organizations were powerless: none could successfully beat the drum for free trade to deaf interventionist member countries or probably even wished to do so. In line with his general idea that “it is a delusion to believe that planning and free enterprise can be reconciled” (1944, 240), Mises summarized his perspective as follows: “It is an illusion to assume that . . . an international body for foreign-trade planning . . . would be in a position to contribute anything genuine or lasting to the promotion of foreign trade” (1944, 250).

The fundamental reason for restricted international trade is the escalation of government interference with domestic markets, and against this there is nothing that international organizations can do. However, if no such domestic government intervention exists, international organizations become supererogatory. Mises argued that “under free capitalism and free trade no special provisions or international institutions are required to safeguard peace. Where there is no discrimination against foreigners, when everyone is free to live and to work where he likes, there are no longer causes for war” (1944, 243).

In conclusion, Mises called in question the role and usefulness of international organizations for two reasons. First, as we have seen, their goals and policy agendas prove ineffective in heading off the interventionism of individual governments. Second, and more important, in a world of unhampered division of labor and sound monetary policies—which Mises envisioned and hoped for—intergovernmental efforts for peaceful international cooperation necessarily become superfluous. Nonetheless, Mises did not succumb to naive expectations, and he deplored the credulity of League of Nations’ supporters who were “eager to build up institutions, offices, and courts, and to draft articles of covenants and pacts” ([1943] 1990b, 161) for the preservation of peace after the Great War. As we shall see more in the concluding section, Mises had become painfully aware that “our contemporaries lack entirely the mentality which *alone* can make for peaceful international cooperation” ([1943] 1990b, 161, emphasis added). Thus, he believed that deep transformative changes in social mentality must occur before a world of peace and free trade can become an actual possibility.

The WTO–Doha Crisis and a Misesian Explanation

Mises’s analysis of international organizations, in particular of international trade-planning bodies in an interventionist world, provides an appropriate framework for studying the recent development of negotiations at the WTO. Let me first give a brief overview of the recent history of the WTO and of the literature concerning the causes

16. Mises to Hoenig, December 6, 1951, “H” Files, Grove City Archive.

of negotiation deadlock, and then offer a Misesian perspective on these issues. As we shall see, current explanations for the breakdown of trade talks do not take into account the underlying *ideological* tensions between WTO members' domestic policies and their foreign policies.¹⁷

The Doha Round of trade negotiations was launched in 2001, following the Uruguay Round, which ended in 1996, and three ministerial conferences held under the auspices of the WTO. The outcomes of the Uruguay, Singapore, and Seattle negotiations were not satisfying for most countries. Doha was dubbed the “development round,” signaling the WTO’s commitment to address the concerns of its least-developed members. Yet negotiators entered this round focused solely on their unfinished business, eager to obtain but unwilling to make any further concessions for liberalization. As a consequence, negotiations proceeded slowly and reached no conclusive agreement. The failure of the Cancún proceedings followed soon after, and the talks came to a deadlock repeatedly in 2006, 2009, and 2011.

The particular reasons why the Doha Round failed in its mission remain unclear, although several explanations have been advanced in the literature. On the one hand, negotiating countries and the majority of trade scholars are engrossed in shifting blame from one nation to the other, without conclusively identifying a single point of origin for the impasse.¹⁸ On the other hand, most commentators consider the WTO itself at least in part responsible. Some argue that the organization is ill equipped for its ambitious objectives, given that “the negotiation of modalities, or the methods and formulas by which negotiations are conducted, still remains elusive 10 years after the beginning of the round” (Ferguson 2011, 3). Others consider whether the organization bit off more than it could chew and suggest, for instance, that it should abandon discussions on agriculture altogether (Rosset 2006). In truth, the WTO has for a long time neglected simple tariff reduction and focused more on environmental issues, health standards, labor regulations, and intellectual-property issues. Nevertheless, after the 2007–2008 global recession, new doubts arose: How relevant are international trade talks that do not address any of the new problems related to the financial crisis? Some consequently argue that the Doha negotiations

17. Some scholars (Ederington 2002; Bowman 2009) have pointed out the tension between domestic and foreign policy, but the focus of their research is significantly different from that of Mises. Mises emphasized the ideological struggle between the free market and government planning. Many contemporary authors, however, accept government intervention as necessary in both domestic and foreign policy, so their arguments primarily concern incongruities between monetary or fiscal policies and balance-of-payments equilibration policies or the integration of environmental and labor standards among trading partners.

18. For instance, the European Union accused the United States of not significantly reducing domestic agricultural support for American producers. In return, the U.S. Congress pointed its finger at the European Union’s reluctance to offer more market access to foreign products. At the same time, developing countries started to question the benefits of their WTO membership and urged developed countries to make deeper cuts in subsidies (James 2008). The developed countries reacted by showing that “developing countries have committed to few tariff cuts over the eight multilateral negotiating rounds that span 50 years” (Bagwell and Staiger 2011, 2), much fewer than their developed counterparts.

have focused on minor issues, while the pressing problems of the day have been omitted from the agenda (Mattoo and Subramanian 2008).

Many trade scholars have by now outlived their initial optimism about multilateral trade talks. For example, after the Cancún proceedings in 2004, Bhagwati wrote with confidence: “[E]ven if the situation were to deteriorate on these fronts, all it would mean is that the Doha Round will not be completed by its original January 2005 deadline. But that would not be fatal; this deadline has always been regarded . . . as overambitious. What matters most is that the negotiators keep talking And the chances are high that they will” (2004, 63). However, by 2012, he concluded that “the Doha Round, the latest phase of multilateral trade negotiations, failed in November 2011, after ten years of talks, despite official efforts by many countries . . . and by nearly all eminent trade scholars today” (Bhagwati 2012). This pessimism is justifiable. At new meetings, WTO members have simply repeated past demands and have implicitly dismissed any talks about concessions and trade-offs. Once more, high trade barriers are seen as an instrument to address unstable economies at home in the aftermath of the recent financial crisis.¹⁹ Trade scholars argue that a successful completion of present negotiations would bring about billions of dollars in welfare gains (Bouët and Laborde 2010), but with crippled financial markets, soaring prices, and unemployment at home, trade liberalization has been governments’ last concern.

To put the hat on WTO’s misery, not even concessions already agreed upon are being respected, thus casting doubt on member countries’ real and long-term commitment to the cause of free trade. As a case in point, during the Doha negotiations, the European Union agreed to abolish export subsidies by 2013. Yet shortly before the deadline, it had second thoughts and surreptitiously backed out of the initial agreement.²⁰ The European Commission considered that “it would be wrong to weaken its bargaining position in those negotiations by unilaterally disarming and foregoing the use of export subsidies before a final agreement is reached” (Matthews 2013).

All in all, scholars and commentators have not reached a consensus on why trade talks have come to a deadlock, but they agree that this breakdown is an unfortunate occurrence. A 2005 World Bank study that mapped the shares in total global tariff reduction by type of liberalization concluded that WTO multilateral agreements contributed only 25 percent of the reduction in trade barriers from 1983 to 2003 (World Bank 2005, 42, box 2.7). This poor WTO performance *before* negotiations

19. Such policies have indeed experienced a revival in recent years, but they had never disappeared completely. For a history of protectionist policies and their rhetoric, see Irwin 2003.

20. The recently published political agreement specifies a number of limitations for the use of export subsidies but keeps open the possibility of offering refunds in the case of market disturbances. Such disturbances are defined in very vague terms: “*significant* price rises or falls on internal or external markets or *other events and circumstances* significantly disturbing or *threatening to disturb* the market, where that situation is *likely* to continue or deteriorate” (European Parliament 2013, Art. 154, emphasis added).

came to a standstill undermines the case for the Doha deadlock's being just a regrettable mishap. At the same time, the main driver of trade liberalization over the same period was represented by autonomous, unilateral liberalization, with a lion's share of 66 percent of total tariff reduction. It would thus be more accurate to say in fact that WTO has failed to be the foremost promoter of trade liberalization (Rose 2002), a failure that should call into question its relevance for the future of international trade.

I suggest, nevertheless, that Mises's analysis of the obstacles facing an international organization ill equipped to deal with the domestic interventions of its member states is more suitable to shed light on the underlying mechanisms that led to the current predicament of the Doha Round as well as to explain what hindered the WTO from achieving international free trade. Let us apply to the present-day WTO a few of Mises's insights discussed in the previous section.

A certain eagerness to "overreach each other in negotiations" (Mises 1944, 250) has been characteristic of most WTO negotiating countries, and for Mises this was an indication that an international trade organization was nothing more than "an assembly of the delegates of governments attached to the ideas of hyper-protectionism" (1944, 250). This attitude can be seen in how the meaning of multilateral commercial treaties has changed over the years. Multilateral trade agreements now focus on providing assistance to exporters through more government intervention, *not* on opening borders and tariff reduction. For example, since 1964 the International Trade Centre, the WTO, and the United Nations Conference on Trade and Development have been working together to assist small economies through their *export-led* development and integration in international trade. Countries seek trade agreements insofar as those agreements encourage only their export industries, but not the flow of imports as well.

Furthermore, the idea of necessary reciprocity in trade liberalization is epitomized by the very principles on which the WTO stands. The organization and its negotiating rounds were constituted from the outset as a forum in which the benefits of free trade can be achieved only through reciprocal concessions. Their main goal has always been the creation of an "open trading system based on *multilaterally* agreed rules" (WTO 2011, emphasis added). However, reciprocity cannot be implemented consistently alongside programs of export-led development, which are implicitly trying to reduce imports from all other countries to a minimum. In addition, reciprocity stops when it comes to developing countries, which are granted special favors by all international organizations,²¹ especially the

21. Mises dedicated an entire essay in 1952 to the plight of less-developed economies. First, he argued that "Europe and America did not cause the plight of underdeveloped nations, but they have prolonged its duration by implanting in their intellectuals the ideologies which are the most serious obstacle to any improvement of conditions" ([1952] 1990d, 172). He deplored the absence of capital needed to exploit their dormant resources but warned developing countries that "domestic capital formation as well as the inflow of foreign capital is [*sic*] sabotaged" by their own policies (170). In fact, these countries hinder their own development and integration in the international division of labor through protectionist measures that keep foreign capital and imports at bay. The favors granted by the WTO are only lending a helping hand to the perpetuation of their hardships.

WTO, and which “are usually given longer to fulfill their obligations” (WTO 2011). This treatment antagonizes many of their trading partners, who in response try to close their markets. So in general countries worry more about their bargaining positions and how to make fewer compromises. On all sides, trade-restricting policies are consistently pursued and are motivated by the idea that some type of protectionism rather than free trade can contribute to the prosperity and development of nations.

The bias toward intervention in domestic and international matters perpetuates all national governments’ reluctance to commit to any liberalization measures.²² This reluctance is also visible in the way in which nontariff barriers have mushroomed to compensate tariff reductions, with even more calamitous effects on economic activity. As Mises explained, interventionist governments have “innumerable means at hand to penalize imports. [These means] may be less easy to handle but they can be made no less efficacious than tariffs, quotas, or the total prohibition of imports” (1944, 250). For example, the new issues the WTO has added to its agenda in recent years have given governments additional opportunity to diversify their import-restricting policies and repackage them as health and labor requirements or intellectual-property concerns.

Finally, protectionism bias implies that a particular type of rhetoric has taken hold of the language and stated objectives of trade agreements and of their parent organization. As a case in point, the WTO champions a process of “lowering” trade barriers, but without their complete elimination, and its guiding principles are an example of ambiguity and lukewarm commitments.²³ The organization wishes to achieve “*freer* trade, gradually, through negotiation” or “*more open* trade,” given that “*lowering* trade barriers is one of the most obvious means of encouraging trade.” Vague statements such as “opening markets can be beneficial, but it also requires adjustment” are immediately followed by the assertion that “WTO agreements allow countries to introduce changes gradually” (WTO 2011, emphasis added).

The latest WTO Ministerial Conference held in Bali in December 2013 provides a more recent but similar example. Over the first months of 2014, there has been considerable media buzz concerning the agreement on the “Bali package,” a selection of the issues that have been on the table of the Doha Round since 2001. Although the organization’s officials consider that the “WTO has truly delivered . . . [and] achieved what many said cannot be done” (“Round-the-Clock Consultations” 2013), it is prudent to remain skeptical. The Bali package comprises a peculiar

22. As to the more corrupt motivations underlying current debates, it is well known that agricultural producers from Europe and the United States as well as the “infant industries” of developing countries are the epitome of interest groups. They are also the focus point of most protectionist schemes and of the WTO’s Special Safeguard Mechanism.

23. There is a major difference between the WTO approach and Mises’s views on gradual reduction of trade barriers. The WTO considers that gradual reduction is the first-best policy to achieve *low* trade barriers. For Mises, a step-by-step approach is only a temporary second-best policy on the way toward complete free trade—that is, *no* trade barriers.

selection of Doha issues concerning trade facilitation—that is, improving the speed and efficiency and reducing the costs of customs procedures. Although all is well for member states' revenue collection, nothing is mentioned about any reduction of tariff and nontariff barriers or about lessening control on domestic markets and international trade flows. What WTO members reached in December 2013 is in fact just a watered-down agreement concerning the budgets they will spend on further government programs. Unfortunately, although advertised as such, the Bali package is not an agreement that has anything to do with lasting unhampered international trade.

What the WTO is experiencing nowadays greatly resembles what the League of Nations experienced in the early twentieth century: the visible symptoms of the inherent tension between the domestic policies and the foreign policies of its member countries. While governments continue to consider intervention in home markets and trade barriers to be necessary and useful, they will inevitably try to tweak international trade to their own advantage and keep their borders as closed as possible. The present state of the Doha negotiations is not exclusively the fault of one nation or another or the by-product of a bureaucratic misalignment.²⁴ It is the result primarily of the futility of free-trade talks in a world of interventionist ideology. Over the past decade, the war on terror and the financial crisis have only exacerbated government planning, which has increasingly encroached on domestic economies and monetary policies. Because free trade is incompatible with this state of affairs, trade talks have deteriorated, and subsequent liberalization (unilateral and multilateral) has necessarily decayed.

Finally, it is reasonable to argue that the WTO has so far only aggravated and prolonged the negative effects of domestic government intervention. First, the doctrine of moderate protectionism it upholds has only “delay[ed] for a shorter or longer time the appearance of the undesired consequences of interventionism” (Mises [1943] 1990a, 148). But as these consequences must eventually become manifest, the WTO is powerless in protecting the international environment from the dangers presented by its own constituent elements. Second, the WTO has contributed to a perpetuation of the belief that free trade is not always beneficial (especially in the case of developing economies) and, what is more, has heightened these beliefs to the status of legitimized concerns. Third, and most unfortunate, it has reinforced the idea that international trade and cooperation cannot be left alone to face crises and wars but need governmental caretakers. Thus, it has pushed back further the ideology of economic freedom and private enterprise and made it easier for the interventionist

24. Overlapping bureaucratic structures do pose numerous problems to economic reconstruction and to international efforts for cooperation, but also as a result of the underlying tension between domestic and foreign policies. As Christopher Coyne explains, “[T]he domestic bureaucracy of the country carrying out the effort [for reconstruction] overlaps with the military bureaucracy as well as [with] many other bureaucracies which influence the effort. Incentives must be aligned both within each bureaucracy as well as across bureaucracies. This is a monumental task because of the sheer size of each bureaucracy” (2008, 15).

governments of the world to commandeer international trade in a multilateral framework subject to their interference.

Mises was right to believe that “keeping away foreign competition is . . . an indispensable complement to domestic economic policy.”²⁵ And following his good judgment, we should be led to the conclusion that increasing government intervention in past decades has only undermined any solid progress toward free trade and has led—somewhat inevitably—to the deadlock of trade talks. If Mises was correct in pointing out the inevitable impairment of international cooperation by government intervention, it should come as no surprise that in a world where the mentality of peace and free enterprise is out of style, the Doha Round and its parent organization were unable to make a lasting contribution to free trade.

Solutions for the Future of International Trade

As I have endeavored to show, Ludwig von Mises’s analysis of international organizations is relevant in explaining the underlying causes of the failure of the international free-trade movement and of its foremost promoter, the World Trade Organization.

What about the solutions for the future of international trade? Contemporary scholars have suggested three main alternatives: (1) the proliferation of bilateral and preferential trade agreements or (2) a thorough reform of the WTO or (3) the development of the WTO’s dispute-settlement system. The shift toward bilateral and preferential trade agreements is supported by the fact that they are much easier to negotiate and conclude than multilateral understandings (Freund 2000; Bergsten 2005; Heydon and Woolcock 2009). Yet these proposals are met with concern. For Bhagwati (Bhagwati and Panagariya 1996) and others (Hafner-Burton 2005; Limão 2007), preferential trade agreements are the “termites in the trading system” (as these various authors would put it) because they bring about trade diversion and increase discrimination.²⁶

The suspension or termination of the Doha Round altogether is advocated in order to have member countries reach a shared understanding of the WTO’s objectives (Cho 2010; Schwab 2011). Claude Barfield, who has characterized Doha as “years of fruitless, arcane negotiations and petty bickering,” has asked for time “to plot a course for the long-term revival of the negotiations and of the WTO as an institution” (2009).

Finally, endowing WTO’s dispute-settlement system with more power is suggested as a means to force the hand of reluctant, disobedient members. But many

25. Mises to Hoenig, December 6, 1951, “H” Files, Grove City Archive.

26. In addition, assessing the suitability of these alternatives to liberalize trade in agriculture, Bhagwati writes: “Bilateral deals are simply not up to the task. Most of them today exempt agriculture, and few exist between countries with competing farm sectors. Besides, production subsidies cannot be cut preferentially for favored nations. So the G-22, the EU, the United States, and Japan have only one real option: multilateralism” (2004, 63).

admit that with no agreements to implement in the first place and given the system's unflattering past, such a proposal is pointless (Iida 2004; Jones 2010).

Mises witnessed in his time similar attempts at rehashing the role of international organizations, but he did not find these attempts suitable or beneficial. First, in his view, there is no difference in kind between bilateral and multilateral trade agreements as long as governments believe discrimination between national and foreign products fosters a country's development. All such agreements, regardless of the extent of their secondary consequences, will perpetuate protectionism rather than free trade.²⁷ Mises similarly contended that a liberal trade policy could not be foisted upon the nations of the world. He wrote: "[I]f pressure or violence is applied in order to force [a country] to change its import regulations . . . it will take recourse to other methods of interventionism" (1944, 250). His insight resembles Bhagwati's (1988) law of constant protection and boils down to the same recurring point: in spite of all international efforts, Mises believed, governments "can virtually annul all the expected advantages of the disappearance of customs barriers by domestic intervention" (1944, 250).²⁸ As long as the protectionist bias persists, even a new WTO with new objectives will most likely prove just as incongruous with its member states' real intentions.

Is there another solution? Mises held that "foreign policy and domestic policy are closely linked together, they are but one system" ([1943] 1990a, 145). Therefore, as long as governments interfere with private enterprise in domestic matters, international free-trade agreements will be rendered futile. Mises therefore argued that "a policy of free trade presupposes domestic free trade, today generally disparaged as *laissez-faire*" ([1943] 1990b, 163). He indicated that the only viable option was to have trade liberalization proceed unilaterally, in both domestic and international markets. In fact, the liberalization of international trade will follow at one fell swoop once domestic markets are purged of the interference of government regulations.²⁹ Thus, Mises advised free-trade supporters that "the battle for free trade must therefore first attack domestic protectionist measures."³⁰

In Mises's writings, unilateral liberalization is presented as both the first- and second-best policy, both in the short term and the long term: not only does it allow

27. Mises did anticipate some of the present concerns regarding bilateral and preferential trade agreements when he wrote: "A customs union between Spain and Portugal, or between Bulgaria and Yugoslavia, or between Germany and Belgium would mean little. . . . Their economic systems are less likely to complement each other than to make them competitors on the world market. . . . The main problems of foreign trade are not regional" (1944, 251).

28. Mises to Louis Rougier, March 18, 1959, Rougier Files, Grove City Archive.

29. This solution has gained some attention in recent years. One notable example is the prominent trade scholar Razeen Sally (2008), who also suggests replacing the WTO's "top-down" approach to liberalization with a "bottom-up" unilateral approach. Sally advocates adopting a classical-liberal program at home, which will further enhance a program of unilateral liberalization of foreign policy. However, he does not stress, as Mises did, the importance of the ideological shift that can bring about such a change.

30. Mises to Hoening, December 6, 1951, "H" Files, Grove City Archive.

countries to reap the benefits of international trade, regardless of other nations' foreign policies, but it also ensures the only way for achieving peaceful economic cooperation. As to particular reforms or suggestions for a reconstruction of the free-trade system, Mises always began from monetary matters. His “non-inflationary proposals for monetary reconstruction” (Mises [1944] 2000b, 71) highlight the importance of a sound international monetary system as the very foundation of healthy international trade. He believed such a system could be achieved only by implementing a domestic rigid gold standard and by abstaining from any policies of easy money and credit expansion.

Unfortunately, in the present context of a financial crisis—created as well as “treated” by the very monetary policies Mises warned against—the future of the international monetary system does not look too bright. In addition, with protectionism on the rise, markets no longer have at their disposal the possibility to minimize or escape bad national policies via international trade. The future seems to hold in store heavily hampered domestic economies, without foreign-capital infusions and without extended division of labor, and hence an ailing international trade system.

Meanwhile, the WTO is set to offer historians another League of Nations type of case study. As Mises pointed out, “[I]n the midst of conditions on all sides predisposed to war, [the founders of the league] hoped to ensure peace by the construction of an expensive palace in Geneva and by the appointment of a staff of lawyers, economists, and statisticians” ([1941] 2000d, 14). Today, in an economic environment where countries are eager to interfere in their markets at all costs, many imprudently hope the WTO will achieve and preserve free trade during its ministerial conferences in Bali. Nonetheless, as Mises argued, “a bureaucracy cannot create a new ideology” ([1941] 2000d, 14).

It follows that the only lasting solution for a reconstruction of the international trade system and for the perpetuation of unilateral trade liberalization is a radical change in social mentalities. The abandonment of economic nationalism and government intervention and avoidance of their effects will be possible only if and after a transformative change in social ideology and social morale occurs. Mises thought there was “one great task in our age: to revive and to spread the economic and social mentality that makes war useless and peace durable” ([1941] 2000d, 14). This meant—and still means—substituting for government planning and control the mentality of economic freedom and private enterprise. Mises was convinced that “a really lasting peace can be attained only with the universal acceptance of an ideology that could lead us to a perfect free market economy . . . with all nations placed on a free trade footing” ([1941] 2000d, 14).

Today, little can be done to limit the international dangers of interventionism and almost nothing to prevent its final consequences. But if the right economic and social mentality were to prevail someday, free trade and peaceful cooperation would necessarily follow—without the help of any international organization.

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