



Economics Against Tyranny: A Reassessment of the Liberal Order of Mises and Hayek

A economia contra a tirania: uma reavaliação da ordem liberal de Mises e Hayek

La economía contra la tiranía: una reevaluación del orden liberal de Mises y Hayek

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Keywords:

Liberal order,
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Ludwig von Mises,
Friedrich A. Hayek.

Abstract: The present work analyses the writings of Mises and Hayek on the relation between a liberal order and a free market, and the role of economic theory in advancing the appreciation of democratic institutions, considering the context of their expositions. Subsequently, it tries to address the contemporary state of political and economic affairs in the light of their teachings, highlighting missing aspects in today's public debate and what should be taken into account for a coherent defense of the liberal order.

Palavras-chave:

Ordem liberal,
paz,
guerra,
Ludwig von Mises,
Friedrich A. Hayek.

Resumo: O presente trabalho analisa os escritos de Mises e Hayek sobre a relação entre a ordem liberal e livre mercado, bem como o papel da teoria econômica no avanço do reconhecimento das instituições democráticas, considerando o contexto de suas exposições. Posteriormente, tentamos tratar o estado atual dos assuntos políticos e econômicos à luz de seus ensinamentos, destacando os aspectos ausentes no debate público atual e que devem ser levados em consideração em uma defesa coerente da ordem liberal.

Palabras clave:

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Resumen: El presente trabajo analiza los textos de Mises y Hayek sobre la relación entre el orden liberal y libre mercado, así como el papel de la teoría económica en el avance del reconocimiento de las instituciones democráticas, considerando el contexto de sus exposiciones. Posteriormente, intentamos tratar el estado actual de los asuntos políticos y económicos a la luz de sus enseñanzas, resaltando los aspectos ausentes en el debate público actual y que deben ser considerados en una defensa coerente del orden liberal.

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Introduction

Over the 20th century, economists transcended the usual inquiries of technical economics and re-engaged in the more broad debate on the role of liberal institutions for a peaceful social order that marked the scholarship of Adam Smith and John Stuart Mill. Ludwig von Mises and Friedrich Hayek are among the most prominent economists that devoted their time and their writings to this subject. These discussions, however, by no means were taken apart from the economic context. The liberal order and free markets were subjects deeply tied by their concerns.

It should be taken into account the present state of world politics and economic performance *seems* to be inserted in another context; as it will be argued later, though, it only *seems*. For the first time in History, the total GDP of countries rated “not free” by Freedom House will surpass that of Western democracies, as reported by the International Monetary Fund projections. Conversely, some may argue that the virtue of democracy as a required cornerstone for economic growth has been dilapidated by present experiences throughout the world.

What can be called autocratic capitalism has, so far, very much proven its effectiveness on economic matters, as long-term economic growth widely depends on stability – and these regimes may supply stability like no other democracy. Also, the reciprocal seems to be true; Feng (1997) provided evidence that growth has a positive effect on the stability of regimes. As people became satisfied with their rising wages, their jobs maintained and their families fed within their own homes, “petty bourgeoisie” institutions like democracy and freedom of the press become less relevant.

But to take this proposition – that democracy and the rule of law is desirable because it allows economic growth – as the corollary of liberal order is to take things backwards, and to leave democracies’ flank wide open as institutional arrangements other than democracy may allow the same (or even better) conditions for growth. The argument follows precisely the other way around: free markets are an indispensable and indissociable part of the liberal order, or “[i]t is far more important to realize that only within this system [capitalism] is democracy possible”, as Hayek had written (HAYEK, 1971, p. 70). One can have free-markets without a liberal order, but one cannot have a solid liberal order without free-markets. What came to be known as the Hayek-Friedman Hypothesis – that economic freedom is a precondition of political freedom – found supportive empirical evidence by Lawson and Clark, and Kapás and Czeglédi provided evidence that “economic freedom is a necessary condition for maintaining political freedom” in countries with high levels of both (LAWSON; CLARK, 2010)¹.

But again, although an essential and indissociable part of the liberal order, free markets are, after all, only a *part* of the whole; to take them as the founding *ethos* of a liberal society is an insufficient assessment of human complexities and social institutions – Hayek himself has also argued that political freedom plays a mutual role in preserving economic freedom (HAYEK, 1971, p. 12), social virtues such as tolerance, to use an example cited by Mises, are an indispensable feature for guaranteeing peace (MISES, 2002, p. 56).

¹ For Kapás and Czeglédi (2018, p. 291) the quote refers to what the authors call as a “weak interpretation” of the Hayek-Friedman Hypothesis.

Additionally, Mises found that the cornerstone of a liberal order lied in private property; markets were a consequence of enforceable property rights. To Hayek, the enemy of the liberal order was scientism, and consequently the abuse of knowledge – whether in economic matters in central planning projects, or in the conduction on human affairs through positive legislation. Together, these three areas of knowledge contributed to a deeper understanding human affair, and consequently, they were essential to promote a rational discussion toward a consensus around the importance of a liberal order.

These two authors provide a unique assessment of the intersection between economic theory and the quest for a liberal society. Together, their writings can provide not only important lessons for the maintenance of democratic institutions, but also the role of economic theory in conserving these institutions. Therefore, to begin, we reassess previous writings by Mises and Hayek on the relation between the liberal order and free markets, and the context of their expositions. Subsequently, we try to address modern-day context in the light of their teachings, highlighting missing aspects of the today's public debate that should be taken into consideration in a coherent defense of the liberal order.

1. Mises and Hayek: a Pragmatic Defense of Liberty

Mises and Hayek are certainly among the most proficient defenders of liberty in the 20th century, and perhaps across history. Perhaps curiously, while they did have their philosophical stances², and their ethical assessment of “why liberty” their most famous and enthusiastically-defended arguments for liberty actually were not ethical ones – it was not a matter of rights. Even for Mises – the most effusive defender of property – did not usually express his defense of property as an unalienable right. His major concern was regarding property as an institution: private property, or private ownership of the means of production. As he wrote (emphasis added) ([MISES, 2002](#), p. 19):

The program of liberalism, therefore, if condensed into a single word, would have to read: *property, that is, private ownership of the means of production* (for in regard to commodities ready for consumption, private ownership is a matter of course and is not disputed even by the socialists and communists). All the other demands of liberalism result from this fundamental demand.

Take also, for instance, their arguments against socialism and other forms of planning. Mises's conversely stressed that the major problem was that the public ownership of the means of production unable economic calculation ([MISES, 2008](#)) – its an economic argument before anything else. The same applies to Hayek, as his main argument against socialism was an epistemological and economic one ([HAYEK, 1945](#)). Both stressed the undesirable consequences of socialism and that socialism could not work prior to saying that socialism was *ethically wrong*.

Their arguments certainly had more aspects. To Hayek, law and legislation played an indisputable role. To Mises, interventionist projects were addressed in several of his writings. The common denominator between the abuse of reason and the interventionist agendas was

²For philosophical matters, see Gordon ([1994](#)).

that these policies would eventually be an attack on the liberal order. Controlling markets ultimately is controlling society as a whole, not only because markets are a part of daily human affairs but also because conducting economic intervention plans eventually requires interfering in other aspects of life. On epistemological issues, Hayek and Mises agreed that socialism and other forms of the statist – collectivist thought were a direct attack to reason³.

Consider his *Road to Serfdom*. Some criticized Hayek on the grounds that the vision of liberty that he defended was insufficient⁴ – why having the freedom to leave the country or to buy a house is important if one does not have money to do so? Some sort of “democratic planning” is important to generate a new, “collective liberty”, that can generate equal opportunities or even equal outcomes. In other words, the freedom to pursuit a good life may not be sufficient for one who does not have any means to do so. Hayek contended that for providing such “good life”, governments would need to first have a specific set of values determining what a good life comprehend. Such ranking of values would generate disagreement among voters and citizens⁵, and thus, these values would have to be imposed, and people would have to be told what to do – e.g. one must hire health insurance, and doctors must charge such amounts for their services. Imposing a set of values, however, is pure arbitrary power by the state. Writing in the best tradition of English Law, Hayek correctly observed that such arbitrary power is a direct attack on the Rule of Law (1971) – part of the very definition of Rule of Law, as A. V. Dicey primarily written, is the opposition of arbitrary power (HAYEK, 1971, p. 5-6).

Mises, in his turn, had put that there are only two ways of conducting the production and distribution of goods and services. The first – and better – is through free markets; the second is through bureaucracy. This position did not start with Mises, though. While Mises and Hayek were fighting in the fronts of World War I as soldiers, the previous generation of Austrian economists was fighting at the University of Vienna and inside the Austrian-Hungarian government. Many of Menger’s *habilitiertes* devoted several criticisms against the war cabinet and its attempts to conduct the economy as an army. Both Menger and Böhm-Bawerk warned (in vain) against the *Kriegsleistungsgesetz* (“war effort act”) of 1912 (SCHULAK; UNTERKÖFLER, 2011, p. 100-101). When Mises was called to serve at the war ministry’s economic department, he instead chose to go back to the armed front (HÜLSMANN, 2007, p. 278-279), for he understood that, in the long run, war and market economies could not coexist. Capitalism is “essentially a scheme for peaceful nations” (MISES, 1998, p. 828). It was within Mises’s scholarship, thus, that the criticisms that were hitherto directed to the war economy of the Austrian-Hungarian Empire were systematized in a broader theoretical analysis. Mises more deeply postulated that not only deliberately substituting markets for army-like arrangements could not work, but additionally understood that introducing barriers to market forces and the worldwide moving of goods was an invitation to conflictual relationships and eventually war. This subject

³ See Hayek (1980 [1952]) and Mises (1998 [1949]), specially Chapter III.

⁴ See, for instance, Becker (1941) and Mannheim (1940).

⁵ The argument is very similar to what later was mathematically formulated as Arrow’s impossibility theorem – see Arrow (1950).

was addressed by several of his writings, starting in *Nation, State, & Economy*, and revisited in *Socialism, Human Action, Omnipotent Government*, and his two books on interventionism⁶.

In his words “war is the alternative to freedom of foreign investment as realized by the international capital market” ([MISES, 1998](#), p. 499). Put simply, when goods do not cross borders, armies do. For Mises, the reciprocal is also true as he wrote that “wars, foreign and domestic (revolutions, civil wars), are more likely to be avoided the closer the division of labor binds men”. This proposition was also held by Mises philosophical influencer, Immanuel Kant ([1795](#), p. 42)⁷, and later confirmed by several empirical studies⁸.

While Mises was trying to analyze the interconnection of interventionism on war, Hayek, apart from his akin endeavor on *The Road Serfdom*, dedicated himself to a more broad and technical problem. As Boettke develops, Hayek’s abuse of reason project was an intention to advance (while trying to convince his economist peers) his view of what should be the scope of technical economics ([BOETTKE, 2018](#)).

Hence, Hayek put his efforts in rebuilding the aspects that were the hallmark of economic theory from Adam Smith to John Stuart Mill – two men that heavily influenced him. Namely, he directed economic theory in analyzing not only economic problems *per se*, but also emphasizing the institutions within which economic activity takes place. Law, property, contract, politics, and social and cultural aspects should be part of economic sciences and social sciences in general.

Perhaps, however, it is through two different authors that this view of economic theory is better summarized. When George Stigler referred to what was Frank Knight’s view of economics, the exposed that:

the primary role of economic theory is rather different: it is to contribute to the understanding of how by consensus based upon rational discussion we can fashion [a] liberal society in which individual freedom is preserved and a satisfactory economic performance achieved. ([STIGLER, 1987](#), p. 58)

As the WWII ended, Hayek started his organizational mission that could be perfectly defined as the same of Knight’s view just exposed. Hayek began to rejoin various scholars and intellectuals within the liberal tradition reconstruct the liberal project in the aftermath of the WWII – that was the ideal of the Mont Pèlerin Society⁹. Over the years, the MPS created a series of profound conversations and debate on the paths that should help to a truly liberal society.

Hayek’s project is non-trivial and it is in deep coherence with Mises’s. The economic thought linked to the proposition of the war economy departments during the First World War defended that the fundamental laws of economics did not apply during wars. Mises observed

⁶In order, Mises ([1951 \[1932\]](#); [1998 \[1949\]](#); [2010 \[1944\]](#); [2011 \[1940\]](#); [2011 \[1929\]](#)).

⁷Kant ([1795](#), p. 42) “It is the spirit of commerce that sooner or later takes hold of every nation, and is incompatible with war.” – the quote was retrieved as it appears in Coyne and Bradley ([2019](#)).

⁸See, for instance, Polachek ([1980](#)), Oneal ([2003](#)) and Weede ([2004](#)).

⁹For a documental-based history of Hayek’s endeavor, see Van Horn and Mirowski ([2009](#)).

that “all economic thought was put aside; ideas carried over from the ‘peacetime economy’ were said not to hold for the ‘war economy,’ which obeyed other laws”.

2. Lessons from Mises and Hayek for Contemporary Problems

Modern-day problem resuscitates much of Mises-Hayek concerns. More recently, military efforts has again become a matter of interest and relevant research by Austrian-influenced scholars¹⁰. And although the context of World Wars is not the same as today’s, the same elements and doctrines prevail. This is to say while present day problems may have been packed differently, their essential content is the same. Protectionism is again finding echo within public debate and among politicians; the peaceful cooperation through the division of labor that has been growing since the second half of the 20th century is finding obstacles in what Mises called “imperialistic” nationalism ([MISES, 2006](#), p. 25). This kind of nationalism also gives sustenance to militaristic agenda overseas, even if within the pretext of “exporting democracy”.

In its turn, the same can be said regarding liberalism: “too much time and effort has been put into repackaging and marketing a fixed doctrine of eternal truths, rather than rethinking and evolving to meet the new challenges”, as Boettke wrote. In other words, liberal scholars and thinks tanks should not focus on creating new slogans to counter those of the enemies of liberty. If the same doctrines persist, it is a signal that liberal “does not face a marketing problem; it faces a thinking problem”, Boettke adds¹¹.

Hence, this is where the importance of Mises and Hayek lies. They did not counter the treads to liberty with a new communication strategy, but with a dedicated critique against the core of anti-liberal ideas. Mises directed serious attention to protectionism, which he thought to be a philosophy of war ([1998](#), p. 687). Nevertheless, this is not to say that what was offered were a bunch critiques but no alternatives. He also highlighted the virtues (or superiority) of the liberal thought. Tolerance and free trade, to cite examples, were effusively defended as alternatives to populism and protectionism. Especially regarding the former, Mises advanced an argument that is not usually considered when addressing the benefits of trade: peace. While the importance of free trade in alleviating poverty and producing economic growth is basically consensus among economists, the effects of international commerce in establishing a strong incentive to peacefully cooperate is strongly underappreciated. Economic policies as weapons of economic wars are still used by several countries ([COYNE; BRADLEY, 2019](#)). Tariffs are common sources of retaliations, ignoring the benefits of adopting free trade, even if unilaterally.

Not only economic policies were adopted as weapons, but economic competition is widely described with usage of military-like terms, something that Mises strongly advised against. In *Human Action* he wrote that:

¹⁰ See, for example, the work of Coyne ([2007](#)) and Coyne and Hall ([2018](#)).

¹¹ Both quotes are from Boettke ([2018](#), p. 258).

[it] is misleading to apply the terminology of mutual extermination to the problems of mutual cooperation as it works within a society. Military terms are inappropriate for the description of business operations. It is, *e.g.*, a bad metaphor to speak of the conquest of a market. There is no conquest in the fact that one firm offers better or cheaper products than its competitors. There is strategy in business only in a metaphorical sense. (MISES, 1998, p. 117)

Another lesson is regarding nationalism. In Mises's thinking, nationalism is not a single, monolithic feeling, but it may be linked to two diverse ideas. The first one, what he called "liberal" or "pacifist" it is directly tied to the principle of self-determination. This thought appeared first on his *Nation, State, and Economy*, (MISES, 2006, p. 25) and reappeared later in his *The Ultimate Foundation*. In the latter, he argued that pacifist nationalism, and thus self-determination is an obstacle to war, since when "every territory can by majority vote determine whether it should form an independent state or a part of a larger state, there will no longer be wars to conquer more provinces" (1962, p. 93). Thus, peaceful cooperation, in the long run, depends also in the right to secession.

To the contrary, "militaristic" or "imperialistic" nationalism embodies the protectionism, interventionism. Where foreign economic production is not seen as assets, but rather as a liability to domestic interests. Mises advised that modern war unfortunately has a different aspect (MISES, 2011, p. 104):

[it] is not a war of royal armies. It is a war of the peoples, a total war. It is a war of states, which do not leave to their subjects any private sphere; they consider the whole population a part of the armed forces. Whoever does not fight must work for the support and equipment of the army. Army and people are one and the same.

Hence, economic actors abroad are not viewed as mere enemies of the domestic economy, but enemies of the people – xenophobic agendas find echo within this view.

If the writings of Mises and Hayek could be summarized in a key sentence, they would show that behind the demolition of the liberal order and peace, there are no tanks, assault rifles or armies – these are mere consequences of deeper phenomena. War is the result of a set of ideas that enables power to rise through bullets. To use Mises words, "the wars of our age are not at variance with popular economic doctrines; they are, on the contrary, the inescapable result of consistent application of these doctrines" (MISES, 1998, p. 687).

If observed in the light of this context, what allowed peaceful cooperation among nation after the II World War was a general belief that nation should be interdependent – various international organization had been founded with this very belief, intending to globally preserve peace. When juxtaposed, it becomes clear that the same did not happen in the interwar period, allowing a second war to come.

Nevertheless, Mises would argue, it is not due to international organizations by themselves that peaceful times were possible, to the contrary, Mises considered the Geneva experiment of the League of Nations a "lamentable failure". More importantly than the mere existence of such organizations, is the set of ideas that are at its core. Abandoning statism and providing an unhampered market are a "prerequisite for any amicable arrangement between nations". For Mises (1998, p. 687):

[W]hat is needed for a satisfactory solution of the burning problem of international relations is neither a new office with more committees, secretaries, commissioners, reports, and regulations, nor a new body of armed executioners, but the radical overthrow of mentalities and domestic policies which must result in conflict.

Take Winston Churchill's discourse for instance. When the II World War finished, his speech to the House of Commons, on May 8th, 1945, first and foremost thanked the British institutions – the Parliament especially. War efforts were conducted in domestic and foreign lands, but power was always subdued to the people's representatives, and limited by the Constitution. The most memorable aspect was the commitment with democratic institutions even in war times. As he spoke: "the strength of the Parliamentary institution has been shown to enable it at the same moment to preserve all the title-deeds of democracy while waging war in the most stern and protracted form" ([CHURCHILL, 1945](#))¹².

In Germany, in opposition, only a few years earlier, the *Reichstag* approved many of Nazi efforts (MISES, 2011). The judiciary reassured the legitimacy of power through the principle "*das gesunde Volksempfinden, i.e., in accordance with the sound feelings of the people*" – as Mises writes ([1944](#), p. 42). Hence, again, the peace was not brought by the Parliament as an mere voting place (the "voting place" approved tyranny in Germany), but by the ideas that directed Parliament's acts. Mises observed the importance of Parliament in securing peace ([MISES, 1962](#), p. 93).

To avoid such violent disturbances of the peace and their pernicious consequences, to safeguard the peaceful operation of the economic system, the liberals advocate government by the representatives of the majority. This scheme makes peaceful change in the arrangement of public affairs possible.

Consequently, we again turn to the reconstruction of the liberal way of thinking. It is not the "package" – whether the institutions, the historical context or the specific movements and their leaders – that should be focus of one's efforts for change.

This is not to say that institutions do not matter, because they certainly do. Rather, the argument is that for a persistente and sound system of "checks and balances" the right ideas must be always vigilant, otherwise the balances are often abolished at a glance.. Defeating warlike spirit requires defeating not only the aggressors, but also the ideas of protectionism, military nationalism, collectivism, and, more generally, statism, which are not compatible with the liberal peace. Mises summarized this view: "to defeat the aggressors is not enough to make peace durable. The main thing is to discard the ideology that generates war" ([MISES, 1998](#), p. 832). Hence, the "first condition for the establishment of perpetual peace is, of course, the general adoption of the principles of laissez-faire capitalism" ([MISES, 1962](#))¹³.

¹² By referring to the discourse, we wish to evaluate it by itself, and not necessarily agree with other actions conducted during war time.

¹³ The quote appears as note 9 on page 93. Its content, however, is located on page 137.

Conclusion

We reviewed Mises' and Hayek's writings on the relation between the market economy and the liberal peace. Whether in the form of the Hayek-Friedman Hypothesis, *i.e.* that economic freedom is a precondition of political freedom, or the similar reciprocal, that democracy is necessary for economic freedom, we found that both Mises and Hayek devoted enormous attention to these topics, and emphasized its various aspects. Although the free markets play an essential and indispensable role in maintaining the liberal order, there are other institutions, virtues and arguments that should prevail together in generating a stronger argument in advocating for the liberal order.

The first is that the war and other attacks on the liberal order and peace are not primarily generated by guns and armies – these are consequences of ideologies that embraces protectionism, interventionism and xenophobia, what Mises named, together, as imperialistic nationalism. The second is that international trade promotes not only a role in diminishing poverty and economic development, but also plays a tremendously positive role in generating peace among nations. The third is that economics problems should not be addressed in an institutional vacuum. Economic theory should account economic activity itself and the institutional arrangements within which economic activity takes place; understanding the role of institutions like property, contract, constitutional democracy and the rule of law not only contributes to a theory that better explains the world with all its human complexities, but also allows one to grasp the importance of them in the maintenance of peaceful cooperation through the division of labor and knowledge. It shows that other citizens of the world, domestic and abroad, are partners to cooperate with.

The key lesson, however, precedes the ones just listed. These are, in fact, consequences of applying it to society's problems with commitment. Namely, the lesson is that the problems and frictions that we face today are new packages for the same ideas that have abridged us in the past, and to counter them, liberalism does not need a new "package" as well, but rather needs thinking, careful research and arguments for facing the *ideas* behind social ills. To use Boettke's words, true liberalism is a "subtle and nuanced expert critique of rule by experts" ([BOETTKE, 2018](#), p. 261), not a marketing campaign to say that liberal experts may rule better.

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