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Commerce, markets, and peace: Richard Cobden's enduring lessons

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COMMERCE, MARKETS, AND PEACE

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“The progress of freedom depends more upon the maintenance of peace and the spread of commerce and the diffusion of education than upon the labor of Cabinets or Foreign Offices.” —*Richard Cobden*

1. Introduction

In a review of Hayek’s *Road to Serfdom*, George Orwell (1944) declared, “Capitalism leads to dole queues, the scramble for markets, and *war*.” If we look at the past century we see significant advances in markets, but we also see a century plagued with war. Do capitalism and conflicts go hand in hand? Are military and markets complements? Indeed, many conservative advocates of markets are passionate supporters of military, and many who oppose war also oppose markets. Nineteenth century writer, Richard Cobden argued just the opposite. He maintained that military and markets were substitutes: more military meant less market. This article critically analyzes *The Political Writings of Richard Cobden*. Although the ideas are a century and a half old, Cobden foreshadowed many developments of modern economics. Since Cobden addressed many arguments for military intervention still made today, we believe much can be learned from Cobden’s discussion of commerce, markets, and peace.

2. Costs of military spending

Cobden began his pamphlet with the famous quote from George Washington’s farewell address: “The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations, to have with them as little *political* connection as possible.” (3) Where Washington made the political

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case for trade with all and entanglements with none, Richard Cobden outlined an economic case.¹

The first issue that Cobden emphasized was the opportunity costs of military spending. Unlike later Keynesians economists influenced by Keynes, Cobden was not an adherent of the broken window fallacy (Hazlitt, 1996). Cobden recognized that each million spent by government was necessarily a million (or more) not spent in the private sector. When the government devotes resources to armies and navies, it comes at a cost, “every farthing of which goes, in the shape of taxation, from the pockets of the public.” (197)

The discussion was important to Cobden because he did not view all of government’s expenditures as promoting the public good. He saw British military spending as a drain on the economy. The more resources government consumes the fewer resources can be devoted to private wealth generating activities. Government agents may gain from increased public spending, but the public loses.² Cobden wrote:

Our history during the last century may be called the tragedy of ‘British intervention in the politics of Europe;’ in which princes, diplomatists, peers, and generals, have been the authors and the actors—the people the victims; and the moral will be exhibited to the latest posterity in 800 millions of debt. (196)

When the state directs resources its beneficiaries certainly benefit, but the tragedy is that the public foots the bill.

¹ Though not a pacifist on principle, Cobden opposed military spending on economic grounds (Bresiger, 1997:48).

² Cobden drew a distinction between the interests of the productive class and the interests of government. As Baumol (1990) has emphasized, in economies where too much entrepreneurial spirit is devoted to government rather than the market, less beneficial innovations will occur.

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He avowed that the productive citizens did not profit from Britain's activities around the globe. Cobden wanted to educate the business class that they had to pay for all the government's projects. Cobden wrote:

But if it could be made manifest to the trading and industrious portions of this nation, who have no honours or interested ambition of any kind at stake in the matter, that whilst our dependencies are supported at an expense to them, in direct taxation, of more than five millions annually, they serve but as a gorgeous and ponderous appendages to swell our ostensible grandeur, but in reality to complicate and magnify our government expenditure, without improving our balance of trade. (24-5)

When government creates programs around the world, the only inclination is for the bureaucracy to grow. While it may look good for government, the average person receives little benefit when government exerts its influence abroad.

The benefits to the public are unclear, but the costs are very clear: the public has to pay. Cobden recognized that taxes are a weight on the economy and that decreasing military spending abroad would result in significant savings. He wrote:

[W]e know of nothing that would be so likely to conduce a diminution of our burdens, by reducing the charges of the army, navy, and ordnance (amounting to fourteen millions annually), as a proper understanding of our relative position with respect to our colonial possessions.(24)

Although international affairs were conducted under the pretext of enhancing the public good, Cobden believed much of public policy solely benefited special interests. He (34) wrote, "The honours, the fame, the emoluments of war belong not to [the middle and industrious classes]; the battle-plain is the harvest-field of the aristocracy, watered with the blood of the people."

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Special interest politics, of course, is not necessarily good for the rest of the economy. At the time of Cobden's writings, Britain had over ten times the ground soldiers than the Americas and a significantly larger Navy as well (82-84). Cobden viewed those military expenditures as wasted resources. Rather than encouraging commerce, the army and navy were a drain on the economy. As Higgs (1992) has discussed, the 'prosperity' brought about by military spending is nothing more than an illusion.

Performing an elementary institutional comparison between England and America, Cobden hypothesized that the reason American enterprise had become so important in such a short time was because it was relatively unburdened by heavy taxes:

[N]o person possessing sound reason will deny that we, who find it necessary to levy upwards of thirty millions annually upon the necessaries of life, must be burdened with grievous disadvantages, when brought into commercial competition with the untaxed labour of the inhabitants of America.(81-2)

America had followed "a policy from which so much wealth, prosperity, and moral greatness have sprung. America...is a spectacle of the beneficent effects of that policy which may be comprised in the maxim—As little intercourse as possible betwixt *Governments*, as much connection as possible between the *nations* of the world." (215)

Cobden's hypothesis seems to be corroborated by recent empirical work by Gwartney, Lawson, and Block (1996), which indicates the higher the government spending in an economy, the worse the economic performance. More specifically Knight, Loayza, and Villanueva (1996) panel data indicates that military spending

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retards economic growth. Knight *et al* (1996:27-8) hypothesize that “military spending adversely affects growth; namely, through crowding out human capital investment and fostering the adoption of various types of trade restrictions.”

The key to a successful economy is not heavy military spending but heavy reliance on markets. Cobden (79) argued: “It has been through the peaceful victories of mercantile traffic, and not by the force of arms, that modern States have yielded to the supremacy of more successful nations.” Commerce, not militarism, is the key. Cobden (103-4) upheld the lower military spending of the Americas as a model to be followed: “The first, and, indeed, only step towards a diminution of our government expenditure, must be the adoption of that line of foreign policy which the Americans have clung to, with such wisdom and pertinacity, ever since they became a people.” Cutting back government spending is the easiest way to improve economic performance.

3. Commerce as a justification for war?

Although all able economists recognize military spending as costly, it might be the case that the costs are necessary for the existence of markets. If so, the opposition to military spending would effectively be the opposition to markets—a contention of many conservatives. Looking back, we see this line of argumentation has a long history. For example, in the seventeenth century King William III declared, “The necessity of maintaining the maritime strength of the country, and of giving adequate protection to the extended commerce of my subjects, has occasioned some increase in the estimates for the navel branch of

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public service.” (quoted in Cobden, 217) Cobden saw how arguments in favor of military were made in the name of business: “still more popular, pretence for wars and standing armaments, *the protection of our commerce.*” (217)

While commerce certainly has beneficent characteristics and war does not, maybe society has to take the good with the bad. The only two choices might be to accept markets and militarism or oppose them both. Cobden recognized the popularity of this view:

[A] proposal to reduce our armaments will be opposed upon the plea of maintaining a proper attitude, as it is called, amongst the nations of Europe. British intervention in the state policy of the Continent has usually excused under the two stock pretences of maintaining the balance of power in Europe, and of protecting our commerce. (196)

But to Cobden this was a false marriage: markets and military do not go hand in hand. He believed that the commerce justification for military spending was illegitimate:

[W]e confess ourselves to be much more at a loss to understand what is here meant by the protection of commerce through an increase in the navy estimates. Our commerce is, in other words, our manufactures; and the first inquiry which occurs necessarily is, Do we need an augmentation of the naval force, in order to guard our ingenious artisans and industrious laborers, or to protect those precious results of their mechanical genius, the manufactories of our capitalists? (217-8)

The success of an economy depends on the achievements of free enterprise, which do not depend on military spending.

We can recognize this by looking specifically where the government devotes military resources. Cobden (223) discussed how much trade existed between England and America but asked, “Now, what precaution is taken by the

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Government of this country to guard and regulate this precious flood of traffic?"

The commerce was extremely important but he pointed out how merchants were pretty much on their own. With great passion, Cobden argued that commerce was hardly dependent on the navy:

How many of those costly vessels of war, which are maintained at the expense to the nation of many millions of pounds annually, do our readers suppose, are stationed at the mouths of Mersey and Clyde, to welcome and convoy Liverpool and Glasgow the merchant ships of New York, Charleston, and New Orleans, all bearing the inestimable freight of cotton wool, upon which our commercial existence depends? Not one! (223-224)

He also argued that commerce is hardly dependent on the army:

What portion of our standing army, costing seven millions a year, is occupied in defending this more than Pactolus—this golden stream of trade, on which floats not only the wealth, but the hopes and existence of a great community? Four invalids at the Perch Rock Battery hold the sinecure office of defending the port of Liverpool! (224)

The world is too big to police every mile of it, so merchants were left to themselves.

But our exports to the United States will reach...more than ten millions sterling, and nearly one half of this amount goes to New York:—what portion of the Royal navy is stationed off that port to protect our merchants cargoes? The appearance of a King's ship at New York is an occurrence of such rarity as to attract the especial notice of the public journals; whilst, all along the entire Atlantic coast of the United States—extending, as it does, more than 3,000 miles, to which we send a quarter of our whole yearly exports—there are stationed two British ships of only, and these two have also their stations at the West Indies. No! this commerce, unparalleled in magnitude, between two remote nations, demands no armament as its guide or safeguard. (224)

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The trade between the nations was immense but British merchants simply could not depend on their navy to defend their every journey. The British military, although significant, was not devoting its resources to protecting the merchants.

But why are so many of the arguments in favor of military made in the name of commerce? One main reason was the legacy of mercantilism. Under mercantilism, government played an active role attempting to manage the economy. A major policy was the establishment of foreign trading monopolies by law. Since the government maintained such monopolies (what was meant by commerce) with armed forces, we have a reason why the discussion of commerce and military went hand in hand. Cobden explained:

Whilst our trade rested upon our foreign dependencies, as was the case in the middle of the last century—whilst, in other words, force and violence were necessary to command our customers for our manufacturers—it was natural and consistent that almost every king's speech should allude to the importance of protecting commerce of the country, by means of a powerful navy. (222)

But to Cobden these mercantilist policies are inconsistent with free trade. The military need not be involved enforcing monopolies.

Cobden favored abandoning military conquest for the benefit of 'commerce' and replacing it with a system free trade. The whole military involvement with commerce is unnecessary, so the superfluous spending could be cut at no harm to the market. He (86) asked, "But will any one who understands the subject pretend to tell us that our trade will suffer by such a change?" Cutting spending will not harm commerce. Cobden argued the legacy mercantilism should be abandoned:

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[W]e are to infer that it is the principle of the government that the extension of our trade with foreign countries demands for its protection a corresponding augmentation of the royal navy. This, we are aware, was the policy of the last century, during the greater part of which the motto, ‘Ships, Colonies, and Commerce,’ was borne upon the national escutcheon, became the watchword of statesmen, and was the favourable sentiment of public writers. (221)

To Cobden the idea of military helping markets was an outdated view of commerce. He wrote:

[B]ut this, which meant, in other words—‘Men of war to conquer colonies, to yield us a monopoly of their trade,’ must now be dismissed, like many other equally glittering but false adages of our forefathers, and in its place we must substitute the more homely, but enduring maxim—*Cheapness*, which will command commerce; and whatever else is needed will follow in its train. (221)

The simple solution is to implement policies friendly to business. Triumph in the world market is determined by successful private enterprise, which depends not on military superiority but on lower costs. By cutting military drastically, the savings could be passed on to productive enterprise.³

To Cobden, the policies of free trade require little military backing. In fact, Cobden maintained that markets should substitute for military. Replacing military relations with commercial relations would lead to significant tax savings, as well as more peace. He wrote:

But, besides dictating the disuse of warlike establishments, free trade (for of that beneficent doctrine we are speaking) arms it votaries by its own pacific nature, in that eternal truth—*the more any nation traffics abroad upon free and honest principles, the less it will be in danger of wars.* (222)

³ Cobden (104) wrote, “By this course of policy, and by this alone, we shall be enabled to reduce our army and navy more nearly to a level with the corresponding burdens of our American rivals.”

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Rather than creating antagonistic relationships, trade encourages peaceful relations between nations. Nothing encourages cooperation like a mutually advantageous enterprise. The key then is the promotion of markets, especially at the expense of military. He kept returning to the theme:

Where, then, shall we seek for a solution of the difficulty, or how account for the necessity which called for the increase of our naval strength? The commerce of this country, we repeat, is in other words its manufactures. (218)

Naval strength is not the key, manufacturing is. What's good for the manufacturers is good for the economy.

Cobden believed that trade would flourish as long as manufactures can lower their costs. Like economists who focus on the principle of comparative advantage, Cobden wrote:

In a word, our national existence is involved in the well-doing of our manufacturers...Are we asked, How is this trade protected, and by what means can it be enlarged? The reply still is, By the *cheapness* of our manufacturers. (219)

As modern economists know, when partners specialize where they have lower opportunity costs it leads to increased output and consumption for all parties involved. Since modern economics has shown mercantilist policies to be a tissue of error we can replace them with policies amenable to free trade.

4. Liberty as justification for war?

The dilemma concerning international trade is it takes more than one party. If one country adopts policies inimical to markets it does reduce others' opportunities for trade. Could liberating such a country benefit both its citizens

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and liberators? Citizens would have their government overthrown and the liberators would have newfound trading partners, so might this after all be a win-win situation? Cobden addressed these justifications for military involvement abroad. He saw that appeals for military involvement were made in the name of promoting good:

We shall here be encountered with a very general prepossession in favour of our maintaining what is termed a rank amongst the states of the Continent—which means...that England shall be consulted before any other nations presume to quarrel or fight; and that she shall be ready, and shall be called upon, to take a part in every contention, either as mediator, second, or principle. (194)

Cobden favored preserving peace but he disputed that military involvement was an effective means. Cobden judged that military involvement was neither in the interest of the intervening nation nor the distant country.

Cobden first made the case appealing to the self-interest of his fellow citizens. He argued that a country could embroil itself in other peoples' affairs, but it would do so at its peril. He wrote:

Our sole object is to persuade the public that the wisest policy for England, is to take no part in these remote quarrels...We shall claim the right of putting the question upon a footing of self-interest. We do not, for a moment, imagine that it is necessary for us to show that we are not called upon to preserve the peace and good order of the entire world. (127)

Even though many problems exist, to become drawn into every one would be a futile concern. Getting involved in foreign conflict is only a recipe for disaster.

Upon what *principle*, commercial, social, or political—in short, upon what ground, consistent with common sense—does the foreign secretary involve Great Britain in the barbarian politics of the Ottoman Government, to the manifest risk of future wars, and the present pecuniary sacrifice attending standing armaments? (211)

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Not only are such endeavors costly, they get a country into war. Why should a country be surprised when attacked after its government has been so tangled in far-off concerns? Cobden believed countries that do not maintain an international presence would be less at risk.

Even though other governments are likely in the wrong, why chance muddling already messy waters? Cobden viewed British involvement with foreign nations as a problem. He (195) wrote, “If we go back through the Parliamentary debates of the last few reigns, we shall find this singular feature in our national character—the passion for meddling in the affairs of foreigners.” He argued that the British had no business interfering with overseas politics. With enough problems at home, why be concerned with the problems of the entire world? Cobden wrote, (33) “Public opinion must undergo a change; our ministers must no longer be held responsible for the every-day political quarrels all over Europe.” To Cobden intervention is counterproductive:

Again we say (and let us be excused the repetition of this advice, for we write with no other object but to enforce it), England cannot survive its financial embarrassment, except by renouncing that policy of intervention with the affairs of other States which has been the fruitful source of nearly all our wars. (104)

By getting involved abroad it makes a nation more at risk to hostilities. War, of course, is costly to a country’s citizens.

The second type of argument for military involvement abroad was for humanitarian reasons. Yes, military intervention entails costs, but when a country is blessed with more liberty, compassion requires helping others attain it too. Cobden recognized this line of argumentation:

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England...sounded like filling office of Justice herself to one of the globe. Of course such a post of honour could not be maintained, or its dignity asserted, without a proper attendance of guards and officers, and we consequently find that at about this period of our history large standing armies began to be called for...the supplies solicited by the government from time to time under the plea of preserving the liberties of Europe. (197)

While Cobden favored liberty throughout Europe, he believed military was not the answer.

Cobden questioned whether war could be used to advance markets. As Higgs (1987) demonstrates, war nearly always leads to an increase in government power. While arguments for militarism are often made under the pretext of promoting liberty, wars have the affect of decreasing freedom. Simply deposing and replacing a country's leaders will not lead to more liberty. Cobden wrote:

For, let it never be forgotten, that it is not by means of war that states are rendered fit for the enjoyment of constitutional freedom; on the contrary, whilst terror and bloodshed reign in the land, involving men's minds in the extremities of hopes and fears, there can be no process of thought, no education going on, by which alone can a people prepared for the enjoyment of rational liberty. (35-6)

Liberty requires enlightenment, which can only come through education and persuasion, not military force.

Public opinion needs to undergo change towards respecting property rights; otherwise a market economy cannot come about. He described how the French were having so many difficulties precisely because of war:

Hence, after a struggle of twenty years, *begun in behalf of freedom*, no sooner had the wars of the French revolution terminated, than all the nations of the continent fell back into their previous state of political servitude, and from which they have, ever since the peace, been *qualifying* to rescue themselves, by the gradual process of intellectual advancement. (36)

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Cobden viewed the transition to liberty as one of learning that could not be imposed through brute force. As Mises (1962:93) wrote, “It cannot be accomplished by a despotic regime that instead of enlightening the masses beats them into submission. In the long run the ideas of the majority, however detrimental they may be, will carry on.” If we want markets, the public has to be convinced, not forced, to support them.

Because war does not advance liberty, foreign nations must be left to sort their own affairs out, no matter how difficult their problems. Feeling motivated to try to step in and control the situation is a natural reaction, but Cobden considered this a bad idea. Rather than trying to fix every problem using might, England should stay out:

With France, still in the throes of her last revolution, containing a generation of young and ardent spirits, without resources of commerce, and therefore burning for the excitement and employment of war; with Germany, Prussia, Hungary, Austria, and Italy, all dependent for tranquility upon the fragile bond of attachment of their subjects to a couple of aged paternal monarchs; with Holland and Belgium, each sword in hand; and with Turkey, not so much yielding to the pressure of Russia, as sinking beneath an inevitable religious and political destiny—surely, with such elements of discord as these fermenting all over Europe; it becomes more than ever our duty to take natural shelter from a storm, from entering into which we could hope for no benefits, but might justly dread renewed sacrifices. (35)

Precisely at the time with so much discord, the best policy is nonintervention. The last thing a country should do is enter the storm. A nation, instead, should focus on free trade. Cobden wrote:

Let us imagine that all our ambassadors and consuls were instructed to take no further share in the domestic concerns of European nations...to leave all those people to their own quarrels,

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and to devote our attention, exclusively, after the example of the Americans, to the commercial interests of their country. (85-6)

Rather than acting as the world's policeman, England should devote its energy to commerce. Let others sort their problems out by themselves.

By eschewing political squabbles, would this be abandoning everyone else? Would this be a case of a country refusing to help those in need? To Cobden the answer was no. He believed the English economy had been able to become freer, precisely when it was unfettered with foreign involvement. He wrote:

Those who, from an eager desire to aid civilisation, wish that Great Britain should interpose in the dissensions of neighboring states, would do wisely to study, in the history of their own country, how well a people can, by force and virtue of native elements, and without external assistance of any kind, work out their own political regeneration: they might learn too, by their own annals, that it is only when peace with other states that a nation finds the leisure for looking within itself, and discovering the means to accomplish great domestic ameliorations. (36)

As the case of England demonstrated, a nation can improve its internal situation without interference from outside.

He believed the most humanitarian course of action was one of *laissez-faire*. A policy of nonintervention would actually help other nations more than activist policies. He wrote:

England, by calmly directing her undivided energies to the purifying of her own institutions, to the emancipation of her commerce...would, by thus serving as it were for the beacon of other nations, aid more effectually the cause of political progression all over the continent than she could possibly do by plunging herself into the strife of European wars. (35)

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By focusing on domestic concerns and freeing trade, a country would act as a model for others to follow. Acting as a guiding light would be far more helpful to foreign nations than getting embroiled in their conflicts.

Consider the trade between the America and England in the nineteenth century. Even though political unification was absent, peaceful relations existed.

Why? Because the private sectors of the two economies were so interlinked.

Cobden explained:

England and America are bound up together in peaceful fetters by the strongest of all ligatures that can bind two nations to each other, viz., commercial interests; and which, every succeeding year, rends *more impossible*, if the term may be used, a rupture between the two. (78)

So much of England's manufactures depended on raw goods imported from America. When groups are interdependent aggression is less likely. If we consider where conflict exists this seems to be the case. Conflict often occurs where trade barriers are present. Have embargoes ever brought about more cooperation? Have embargoes ever brought about more liberty?

Government-managed trade is worse for peace. With each new trading relationship a bond exists between otherwise separate parties. By expanding trade around the globe nations will develop more peaceful relations. In this realm government relations are superfluous. Cobden wrote:

England...has...united for ever two remote hemispheres in the bonds of peace, by placing Europe and America in absolute and inextricable dependence on each other; England's industrious classes, through the energy of their commercial enterprise, are at this moment influencing the civilization of the whole world, by stimulating the labour, exciting the curiosity, and promoting the taste for refinement of barbarous communities, and, above all, by

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acquiring and teaching to surrounding nations the beneficent attachment to peace. (149)

Policies increasing trade lead to increasing peace. Cobden was right: trade *is* the great panacea. If we want to promote a world of peace, we should promote a world of free-markets.

5. Conclusion

Arguments for military in the name of markets have a long history, but nineteenth century writer Richard Cobden addressed these arguments head on. Military spending is not a boost the economy—military spending entails significant costs. The campaigns of government increases the risk of war and increases the burden on taxpayers. Despite claims to the contrary, military is not helpful for commerce. National success depends on private enterprise, not military might. Armed forces must play an active role regulating commerce under mercantilism, but not under free trade. The vast majority of commerce does not depend on military at all. The key is to create an atmosphere where businesses are free to innovate and lower costs. Such policies would benefit all nations. War is not an effective way to advance liberty. The solution is to stand by the principles of free trade and serve as a beacon. Free trade promotes international cooperation, and international cooperation promotes peace. Contrary to prevailing views, markets and war do not go hand in hand. The market promotes peace.

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