Interstate Federalism: Challenges from the History of Classical Liberalism

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Introduction

In the first meeting of the Mont Pèlerin Society in 1947, a collection of classical liberal intellectuals gathered to discuss a variety of topics in the wake of the Second World War. The overarching objective of the meeting was "to halt and reverse current political, social, and economic trends toward socialism" (Hartwell 1995: 34). The meetings included a session titled, "The Problems and Chances of European Federation," which focused on the possibility of forming a European federation that would seek to minimize economic tensions, as well as the likelihood of future military conflict (see Caldwell 2022: 127–138). While many participants agreed on the broad points, including reducing trade barriers between nations, there were still issues of contention between

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B. Christensen (ed.), *Liberty and Security in an Anarchical World Volume II*, Palgrave Studies in Classical Liberalism, https://doi.org/10.1007/978-3-031-67462-4_3

participants; such issues included the importance of liberalism as an ideology necessary for the operation of a federation, the maintenance of national sovereignty of the member-states of the federation, and concerns about the concentration of political power in big-player members of the federation.

Ludwig von Mises and Friedrich August von Hayek had both discussed the topic of "interstate federalism" before attending the Mont Pèlerin Society meeting (see Hayek 1939, 2007; Mises 1985). However, by 1947, both indicated some skepticism about the idea at the meetings. Hayek noted that "Federation may be a practical solution in a liberal society, but once the liberal society has disappeared, I don't see how the thing is practicable at all unless as a movement towards liberalism again" (quoted in Caldwell 2022: 136–137). Likewise, Mises stated that there existed a "Tendency in our age to overestimate [the] importance of offices and institutions, and to underestimate [the] importance of ideologies. If many people believe that wars can improve their position, an office in Geneva will not prevent wars" (quoted in Caldwell 2022: 137–138). Mises and Hayek were not alone in their skepticism. French philosopher, Bertrand de Jouvenel, inquired "whether federalism had any relationship at all to liberalism. Perhaps it bears no more relationship than nationalism was thought to bear to it in the 19th century. I distrust political power" (quoted in Caldwell 2022: 138).

However, other participants of the meeting saw interstate federalism as crucial for the sustainability of peace. French physicist and economist, Maurice Alais, stated that, "In spite of the obstacles, I see no solution other than a federation" (quoted in Caldwell 2022: 131). Likewise, American diplomat, William E. Rappard, argued that, "We were threatened by annihilation. And when you are placed between annihilation and something that is impossible, the impossible sometimes becomes more nearly possible" (quoted in Caldwell 2022: 131).

The sessions at the first Mont Pèlerin Society focused on the topic of international federation raised important issues about the feasibility of creating an interstate federation, and about the robustness of such an interstate federation once established. This discussion on interstate federalism has been continued by contemporary classical liberals (see, for example, Christensen 2021; Kosec 2022; Rohac 2022; Masini 2022;

Nientiedt 2022; Studebaker 2022; Van de Haar 2022). Issues of foreign policy are hotly debated by contemporary classical liberals as illustrated by recent debates about the U.S. government's occupation of Iraq (see Barnett 2007; Higgs 2007; Kinsella 2007; Rizzo 2007) and on the use of "liberal hegemony" to promote peace, prosperity, and liberal values (see Ferguson 2003, 2004; Lal 2004; Coyne and Hall 2016; Coyne 2022).

This chapter surveys the main ideas and tensions in the classical liberal treatment of defense, international relations, and war-making. This sets the stage for a discussion of the feasibility of interstate federalism by identifying key issues and challenges that such a system will need to address to be effective. Our purpose is not to propose solutions to these challenges, but rather to identify key issues that any proposed system of interstate federalism must appreciate and address.

In order to identify these issues and challenges, this chapter summarizes the view of different liberal individuals; these individuals are drawn from time periods ranging from the eighteenth century, such as Burke and Smith, to more contemporary scholars. Further, while some papers (see, for example, Coyne and Hall 2014; Owens and Coyne 2022) do so by discussing each individual in turn, this paper will be organized by topic, with each section engaging multiple classical liberals who discussed said topic.

We proceed as follows. Section "The Effect of Defense and War on the Economy" will discuss the effects of defense and war on the economy. Section "Ethical Aspects of Foreign Relations" will discuss the debate surrounding the ethics of foreign relations. Section "Defense, War, and the Growth of Government" will discuss the effect of defense and war-making on the growth of government at home. Section "Conclusion" concludes with the implications.

The Effect of Defense and War on the Economy

State-provided defense and war-making has real effects on economic activity. There are several ways, as will be seen below, that state-provided defense and war-making affects economic activity. A system of interstate

federalism will need to appreciate these issues and identify mechanisms to mitigate potentially perverse effects.

One way in which defense and war-making affects the economy is through public finances. Adam Smith referred to the financing of wars by debasing the currency and issuing debt as a "pretended payment" and a "juggling trick," because the state rarely repaid its national debt that it accumulated in times of war in a fair and complete way (Smith 1981: 929–930). These measures reduce the cost of engaging in wars and interventions by shifting the burden of financing the conflict to future generations.

Similarly, David Ricardo compared the financing of wars through implementing new taxes and through public debt. He favored the former over the latter, because "*such a means would be an effective precaution against unnecessary wars*" (Silberner 1946: 30; emphasis original). In his *Essay on the Funding System*, Ricardo noted that, "When the pressure of the war is felt at once, without mitigation, we shall be less disposed wantonly to engage in an expensive contest, and if engaged in it, we shall be sooner disposed to get out of it, unless it be a context for some great national interest" (quoted in Silberner 1946: 30). While neither Smith nor Ricardo were universally opposed to conflicts, both were concerned about the temporal shift of carrying the financial burden of war from fathers to their sons.

In addition to the utilization of "pretended payments" like inflation or loans in order to finance wars, another important aspect of financing wars that was discussed by classical liberals is the role of special interest groups, which benefit through financing wars at the public's expense. Recalling Smith's analysis of the aforementioned "juggling trick" and "pretended payment," Coyne and Hall (2014: 363) summarize that said "pretended payments" that Smith criticized were benefiting those in the merchant class at the expense of the general public, which bore the burden of the issuing of debt and the debasing of currency. Similarly, Ricardo saw expanded circulation of public debt by the Bank of England as a means for the Bank's propitiators to financially profit, for "it cannot be expected that the Bank will, during peace, have the same opportunities of making profit as during war, and the proprietors must prepare themselves for a considerable reduction in their annual income" (Ricardo

1816: 83). While the specific interest group is different between Smith and Ricardo, the underlying logic remains the same.

More recently and more broadly, Duncan and Coyne (2015) discuss special interest groups as an unintended consequence of decisions regarding the war industry and foreign interventions. They note that as the sector centered around war-making increases in relative power and influence, resources will be shifted from otherwise productive economic uses to engage in unproductive "rent-seeking," or political competition. This rent-seeking, in turn, leads to wealth transfers and deadweight loss, as many resources spent by the "losers" of political competition are effectively wasted (Duncan and Coyne 2015: 691). Entrepreneurial talents are—utilizing the terms described in Baumol (1990)—shifted from "productive" to "unproductive" or "destructive" uses through the shift from being alert to profits in a civilian market to "profits" (i.e., rents) in a political market.

In addition to the problems of shifting the financial burden to future generations and of the special interest groups that benefit from war and imperialism at the public's expense, another issue to be discussed is individuals' ability to engage in rational economic calculation in an institutional framework without private property to incentivize, prices to guide, profits to lure, and losses to discipline (Boettke 2012). In other words, how do central planners in a military know whether they are utilizing scarce resources at their disposal in the most efficient or effective way possible? The significance of this inquiry could be seen in the contention between Otto Neurath and Ludwig von Mises at the end of the Great War with regards to the possibility of socialist calculation.

Otto Neurath (1973), in "Through War Economy to Economy in Kind," argued that the socialist planning seen in World War I benefited the economy with increased productivity and decreased unemployment. As such, he advocated for similar socialist planning to be implemented in peacetime through abolishing money and creating a centralized office that used non-monetary statistics to manage the economy as if it were a firm (Silwal et al. 2021: 13).

In contrast, Ludwig von Mises (1983), in *Nation, State, and Economy*, argued that the socialist planning that occurred during the war curtailed decision-making by individuals that occurred within markets.

By distorting, or eliminating, market prices and monetary profit-and-loss, socialist economies threaten prosperity by eliminating the means necessary for individuals to engage within the entrepreneurial market process in order to rationally allocate scarce resources in order to satisfy consumers' demands (Silwal et al. 2021: 13). Coyne and Bradley (2019) provide a summary of Mises's numerous insights in *Nation, State, and Economy*; his insights include, but are not limited to, the emphasis that a liberal peace requires both economic and political liberalism, the effect of "war socialism" on consumer welfare through the shift in production of consumer goods from foreign producers to domestic producers and through the shift in the use of labor and capital from producing consumer goods to producing war-related materials, and an emphasis on the harmful effects of war financing through means like taxation, inflation, borrowing, and outright confiscation.

The debate between Neurath and Mises serves as the foundation of the Socialist Calculation Debate (see, for example, Mises 1951, 1990, 1998; Hayek 1945). Don Lavoie (2015) highlighted this debate, and Lavoie (2016) emphasized three key points about centralized planning: the epistemic (knowledge) problem, the political (power) problem, and the problem of planning as militarization. This section shall focus on the first problem. A competitive market—grounded in property rights and mutually-beneficial exchange—provides the market process which allows economic actors to access and use the knowledge needed to utilize their scarce resources in the highest-valued uses from the perspective of consumers (see Hayek 1945; Kirzner 1973, 1997; Lavoie 2015, 2016). Further, Hayek (1978) emphasized that the competitive market process is a process in which people consistently discover, and rediscover, the best means of allocating scarce resources to produce a given output in a value-added manner. In contrast, institutions that are responsible for foreign interventionism—like the defense sector—do not have access to this competitive market process that generates genuine market prices that allow for the utilization of scarce resources in ways that benefit consumers. Instead, as shown in Coyne and Hall (2019: 78), the defense sector is "guided by the vision, preferences, and demands of those in control of the managerial-administrative state," and "Final defense outputs are not sold through competitive markets, meaning

there is no genuine market price for final goods and services." Under non-comprehensive planning, as seen with state-provided defense, the mechanism that empowers individuals to utilize their scarce resources in ways that are of highest value to consumers is either mitigated or absent entirely.

Finally, classical liberals have also discussed how "wartime prosperity" is only a statistical mirage. Higgs (1992) discussed the standard measures of macroeconomic performance used during World War II to propose the existence ofs "wartime prosperity" during the 1940. On paper, unemployment fell while real consumption per capita and gross national product rose during the war. However, the macroeconomic statistics utilized during that time were either inaccurate or inappropriate in their utilization. For example, Higgs noted that the macroeconomic models used to measure macro statistics did not pertain to the United States during World War II, simply due to the fact that these models presume function markets for bonds, commodities, and factor services, while the U.S. at the time was a command economy in all of these (Higgs 1992: 54). Rather than providing the U.S. with either a "carnival of consumption" or an "investment boom," what World War II did successfully was that "it overwhelmed the nation's enemies with bombs, shells, and bullets" (Higgs 1992: 58). It was not the war, but the years after the war, that was the catalyst of America's post-Depression prosperity.

In sum, an effective system of interstate federalism will need to find some solution to a variety of issues related to the economy. First, it needs to determine the means of public financing. This financing mechanism will need to navigate the fact that the leaders of members states have an incentive to act strategically—both within their borders and in international relations. The tools of public finance can be strategically employed to both shift costs from one group to another, and to conceal costs from both citizens and foreigners. Second, a system of interstate federalism must find ways to overcome the problem of special interest groups, which will attempt to influence policies in a way that concentrates benefits on their members while dispersing costs on others (both people inside, and outside, of the interstate federation). This can undermine the goals of the broader political system, which are intended to serve the "public interest" by instead directing the narrow interests of the politically connected.

Finally, a system of interstate federalism needs to resolve the challenge posed by the government planning of resource allocation absent markets and the economic knowledge generated by market processes. Without the ability to rely on markets, political decision-makers will be faced with the same issues and challenges that faced socialist planners who also relied on top-down resource allocation.

Ethical Aspects of Foreign Relations

An effective system of interstate federalism will need a shared ethic to sustain. If the citizenry and leaders of member states have opposing ethical standards it will prevent cooperation regarding issues of foreign relations and policy. The challenge of establishing and maintaining a shared ethic regarding the appropriate scale and scope of international relations is significant as evidenced by differences across classical liberal thinkers.

The general trend of the classical liberal tradition is bent against war and conflict, even if not all are doctrinally pacifist (Preble 2016). Yet, it should be evident that it was not the case that every classical liberal was purely against, or in favor of, all cases of foreign intervention on an ethical basis. Edmund Burke, for example, sought to ethically analyze conflicts on a case-by-case basis, rather than through a universal principle, as seen in the following to quotes below on the American Revolutionary War and the War of the First Coalition against Revolutionary France respectively:

> The proposition is peace… It is simple peace, sought in its natural course, and in its ordinary haunts; – it is peace sought in the spirit of peace, and laid in principles purely pacific. I propose, by removing the ground of the difference, and by restoring the former unsuspecting confidence of the Colonies in the Mother Country, to give permanent satisfaction to your people, and — far from a scheme of ruling by discord – to reconcile them to each other in the same act, and by the bond of the very same interest, which reconciles them to British government. (Burke 1897: 7–8)

> Had we carried on the war on the side of France which looks towards the Channel or the Atlantic, we should have attacked our enemy on his weak and unarmed side. We should not have to reckon on the loss of a man, who did not fall in battle. We should have an ally in the heart of the country, who, to our hundred thousand, would at one time have added eighty thousand men at the least, and all animated by principle, by enthusiasm, and by vengeance. (Quoted in Klein and Pino 2022: 135)

As this suggests, while Burke was hesitant about conflict with Britain's American colonies, he was eager to utilize military force to crush the French Revolution. While he critically denounced the use of Native Americans and Hessian mercenaries during the former conflict (Moffatt 1905: xxi), he also criticized his government's half-hearted response to France in the War of the First Coalition (Moffatt 1905: xxxii–xxxiii), and he even called on his government to do what Klein and Pino (2022: 16) summarizes as "a late eighteenth-century D-Day" to restore the Bourbon Monarchy. This indicates that he was not guided by any universal principles against war and conflict.

While many other classical liberals judged conflicts on a case-by-case basis, others were more inclined to stand on principle in opposition to war and to foreign interventionism. This is evident, for example, in the "Manchester School," consisting of John Bright, Richard Cobden, Henry Richard, and Joseph Sturge. They were generally ethically against foreign intervention, as seen in the following quote from Sturge on the Opium War:

> A wholesale carnage, which it is frightful to contemplate, has already begun, and surely the disciples of the Prince of Peace cannot be held guiltless if they are silent on this occasion. Is it not the duty of everyone, of whatever religious denomination, solemnly to protest against such a war as this, although not prepared with me to condemn all war as forbidden under the Christian dispensation? and if our legislators treat their remonstrances with contempt or indifference, the people of China may hereafter learn that it was not the disciples of Him whose doctrines the missionaries have preached who were engaged in their destruction, but a party in power who, through *professing* the name, *possessed* not the spirit of Christianity. (Quoted in Richard 1865: 289; emphasis original)

These scholars used a combination of economic reasoning and Christian moral sentiment in order to advocate against foreign interventionism, as seen in a letter that Cobden wrote to Sturge saying, "You are rousing the religious sentiment against the barbarous system, & I am showing that soldiers & sailors are kept upon taxes levied at the soap-boilers, paper-makers, or the tea caddies" (quoted in Tyrrell 1978: 90). Their anti-conflict advocacy could be seen with the Opium Wars (Sturge 1842: lxiv; Richard 1865: 523), the Sepoy Mutiny (Richard 1865: 523), the Crimean War (Richard 1865: 492–494, 496; Cobden 1878: 324; Robertson 1883), the American Civil War (Cobden 1878: 216, 359–369), and the Russo-Turkish War of 1878 (Richard 1877; Miall 1889: 289).

The Crimean War, in particular, provides an excellent example of these individuals' convictions against foreign interventionism. The popularity of this war led to Cobden and the other Manchester Liberals to be seen as "pro-Russian" and "anti-English" for their calls for restraint (Figes 2010: 149). Yet, their arguments against war with Russia—which included the arguments that an effort to "maintain the independence of Turkey…cannot be accomplished without a vast expenditure" (Cobden 1878: 324), or that such conflict was "fratricidal strife," for "God made of one blood all the families of man to dwell on the face of all the earth" (Bright 1865: 36–37)—did show their willingness to utilize various rhetorical means for the same end, and their willingness to face unpopularity—as seen with the general public burning an effigy of Bright—for that end (Richard 1865: 534). In the end, they would be vindicated, for *The Times* would conclude in 1861 that, "*It is with no small reluctance we admit a gigantic effort, and an infinite sacrifice, to have been in vain*" (quoted in Richard 1865: 496; emphasis original).

Yet, there were still differences between members of the Manchester School. For example, while Cobden and Bright were both against military intervention on behalf of the Confederacy, they disagreed on the matter of the Union blockade. A delegation from the United States in the Paris Peace Conference, which was rejected by British politicians, called for the abolition of blockades of lawful commerce as a means of war; as such, Cobden argued that British citizens—amidst the Union blockade of the Confederacy—were reaping what British delegates have

sowed (Cobden 1878: 216–217). In contrast, Bright justified the Union blockade by noting that "*war* is *barbarous*, and this is but an act of war" (quoted in Trevelyan 1925: 317; emphasis original). Again, neither Cobden nor Bright favored direct military intervention by the British on behalf of either the Union or the Confederacy. However, there were still ethical disagreements on whether various means of war could be seen as morally justified.

There were other classical liberals, however, who had ethical arguments in favor of foreign intervention. For example, while Alexis de Tocqueville viewed wars as having detrimental effects, as will be discussed in the next section, he also argued that wars had benefits to society as a whole, for "There are cases where it alone can arrest the excessive development of certain tendencies that arise naturally from equality, and where war must be considered as necessary for certain inveterate illnesses to which democratic societies are subject" (Tocqueville 2012: 1159). Rather than being a product of some aristocratic anachronism, Duong (2018) emphasized how Tocqueville's support of "total war" in Algeria was shaped by revolutionary republicanism and Bonapartism, that defined glory in terms of national defense. In short, Tocqueville saw the preservation of glory through the construction of large works or the participation in foreign wars and colonial ventures as necessary for the preservation of French liberalism.

Another example of a classical liberal with ethical arguments in favor of war was Josephine Butler. She argued in favor of British intervention in the Second Boer War because of the treatment of African natives by the Boer republics. She noted that "*wherever British rule is established, slavery is abolished, and illegal*" (Butler 1900: 2; emphasis original), while, in contrast, she writes the following about Britain's cessation of hostilities in the last Boer War and the broken promises made to the natives:

> The retrocession of the Transvaal in 1881 has been much lauded as an act of magnanimity and justice. There is no doubt that the motive which prompted it was a noble and generous one; yet neither is there any doubt, that in certain respects, the results of that act were unhappy, and were no doubt unanticipated. It was on the natives, whose interests appeared to

> have had no place in the generous impulses of Mr. Gladstone, that the action of the British Government fell most heavily, most mournfully. In this matter, it must be confessed that the English Government broke faith with the unhappy natives, to whom it had promised protection, and who so much needed it. In this, as in many other matters, our country, under successive Governments, has greatly erred; at times neglecting responsibilities to her loyal Colonial subjects, and at other times interfering unwisely. (Butler 1900: 7)

As this illustrates, Butler argued that the British government should carry the responsibility of utilizing military force to prevent injustices like the enslavement of native Africans by the Boers. In other words, Butler saw it as justifiable for one government to intervene in order to counter the injustices being committed by another government.

The discussions of whether wars could be morally and ethically just among classical liberals continues to this day, as seen with the debates around intervening in Iraq. On the one hand, Barnett (2007) noted that, while many libertarians opposed military conscription and "nation building" on principle, many other libertarians saw the war in Iraq as "part of a larger war of self-defense against Islamic jihadists who were organized independent from any government." This Islamic fundamentalism, Barnett continued, is a product of "corrupt dictatorial regimes that inhibit the Middle East, which have effectively repressed indigenous democratic reformers." As such, Barnett is similar to Butler in showing that some libertarians "believed that a strategy of fomenting democratic regimes in the Middle East, as was done in Germany and Japan after World War II, might well be the best way to take the fight to the enemy rather than solely trying to ward off the next attack" (Barnett 2007).

However, many other classical liberals have critiqued Barnett on Iraq, and on interventions to establish democracies in general. For instance, Higgs (2007) contends that Barnett offered a false dichotomy by equating "the actions an individual might take in self-defense with the actions a state takes when it goes to war." In other words, an individual shooting another person in an act of "self-defense" is not the same as a country invading another country in an act of "self-defense." This is in addition to Higgs's concerns about Barnett fails to recognize warfare

as "the master key with which the state gains entry into every formerly protected area of American life, overriding long-established rights and suppressing long-established liberties" (a point we discuss further in the next section). Likewise, Rizzo (2007) argued that, while there may be libertarian justifications for foreign intervention, "Barnett does grave injury to the classical liberal and libertarian tradition by ignoring its strong Presumption of Peace." Furthermore, Barnett's vision stands in contrast to Coyne (2008, 2022), where economic analysis is grounded in a commitment to non-interventionism and free trade, rather than exporting of democracy or the creation of "liberal hegemony" to provide public goods such as safe commerce and liberal institutions that promote the rule of law (see Ferguson 2003, 2004; Lal 2004), as the foundational groundwork for a path to peace.

Proponents of interstate federalism need to consider a variety of ethical issues. One is the nature of the shared ethic required by individuals between, and within, member states. Another is the robustness of interstate federalism to changes in ethical positions over time. Yet another is the possibility for conflicting visions about foreign relations, including intervening in other polities, between individuals of different member states, and between individuals within each member state. Would the system be able to adapt to changing ethical positions between, and within, members of the system across time? Mechanisms need to be developed to effectively navigate these differences, or otherwise the federation will be weakened or breakdown altogether.

Defense, War, and the Growth of Government

Historically, the defense and war-making function of the state have led to increases in the scale (size) and scope (range of activities) undertaken by the state. Interstate federalism is promoted as a check on political opportunism and largesse. As such, an effective system will need to have effective mechanisms to check political power, epically among (and within) "big player" members who possess superior resources relative to other members. Moreover, mechanisms are needed to ensure that

the international-relations activities of the federation do not undermine liberties within the member states.

Classical liberals have long discussed how the scale and scope of government influences domestic life. For example, Adam Smith (1981: 687) mentions that "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things." In this sense, both peace and a "small-scale" government that only limited itself to easy taxes and tolerable administrations of justice were jointly seen as leading to prosperity.

Classical liberals have viewed a pro-active, military-driven foreign policy as detrimental to liberal democracy at home. For example, Tocqueville (2012: 1160–1162)—in *Democracy in America*—warned about how long wars abroad placed liberty at home at risk. It did so through various means, as summarized by Boesche (2005: 738–739). First, it centralized the direction of men and the utilization of goods through the hands of the central government. Second, it replaced democratic population among the populace with the teaching of obedience towards authorities. Third, it also fortified and solidified the presence of authoritarian institutions. Thus, Tocqueville saw war with both positives and negatives, and one must see a tradeoff between providing the nation with the glory and pride needed to avoid stagnation and the deterioration of liberal values and institutions.

William Graham Sumner wrote about his concerns regarding the outcome of the Spanish-American War with regards to the domestic effect of foreign wars. While America was militarily victorious over Spain, the war also resulted in the American people replacing the eternal vigilance and the sound political sense—both needed for self-governance—with pomp, glory, and platitudes (Sumner 1899). Sumner summarized the dangers of imperialism and of foreign intervention in the following quote:

> Expansionism and imperialism are nothing but the old philosophies of national prosperity which have brought Spain to where she now is. These philosophies appeal to national vanity and national cupidity. They are

> seductive, especially upon the first view and the most superficial judgment, and therefore it cannot be denied that they are very strong for popular effect. They are delusions, and they will lead us to ruin unless we are hard-headed enough to resist them. (Sumner 1899: 168)

Sumner emphasized that, in contrast, the self-government that American's liberal tradition was founded on required persistent tending and vigilance in order to continue. Yet, what America's imperialist ventures did was replace the virtues of self-governance with the vanities of pomp and ceremony: the same vanities that led to the decline of Spain's empire in the first place.

> Let us be well-assured that self-government is not a matter of flags and Fourth of July orations, nor yet of strife to get offices. Eternal vigilance is the price of that as of every other political good. The perpetuity of self-government depends on the sound political sense of the people, and sound political sense is a matter of habit and practice. We can give it up and we can take instead pomp and glory. That is what Spain did. (Sumner 1899: 172)

From this foundational principle, other scholars would build upon their work to discuss the growth of government in times of war and crisis. Perhaps the greatest of them all is Higgs's (1973) *Crisis and Leviathan*. Higgs analyzed the growth of government—especially during both world wars, the Progressive era, and the Great Depression—using an analytical tool called the "ratchet effect." To summarize, Higgs argued that, during times of either actual or perceived crisis, the government used its newly-gained discretionary power to increase the growth rate of both the scale and scope of its activities. After this crisis ceases, the growth of government (determined by both scale and scope) decreases from its rate during the crisis, but it does not decrease to its pre-crisis rate. The ratchet effect is an example of the "power problem," as illustrated in Lavoie (2016). Because individuals in the national government cannot possibly foresee every detail of an emerging crisis, discretionary power is needed, as seen with increased scale and scope, in order to respond to said crisis and the unforeseen changing circumstances.

From Higgs's original work, other scholars have extended his work. For instance, O'Reilly and Powell (2015) empirically analyzes the ratchet effect of wars on the growth of government by observing a panel of 124 countries spanning from 1965 to 2010. They find that "wars tend to be associated with an increase in the scope of government's economic regulation (decrease in economic freedom)", but they "do not find any consistent statistically significant evidence that wars increase governments' size" (O'Reilly and Powell 2015: 40). In other words, their evidence aligns with Higgs's analysis with regards to *scope*, but not with regards to *scale*.

Other empirical works focus on specific conflicts to analyze the ratchet effect. Mitchell (2018) looks at taxes during the American Civil War, and observed that while tariffs exhibited the trend seen in Higgs (1973), the income tax was eliminated entirely at the end of the Civil War. Through this, Mitchell argued the importance of various interest groups with regards to this phenomenon. Beetsma et al. (2016), likewise, used empirical analysis to support the existence of ratchet effects with regards to transfers and revenues in the United States during and following World War II. They argued that the war "created a new taxation status quo in terms of both tax rates and tax collection capacity", and after the war, "decrease[s] in defense spending induced a new political equilibrium in which part of the peace dividend was channeled toward more redistribution" (Beetsma et al. 2016: 38).

Also building on Higgs (1987), Coyne and Hall (2018) develop a theoretical framework they call the "boomerang effect." They analyze how tools—such as drones and surveillance equipment—that were utilized for foreign intervention abroad often find use as means of social control by government at home against citizens. Rather than assuming malicious intent, the main reason why this occurs is the garnering, and utilization, of specific forms of physical and human capital that were attained through foreign interventions. This produces an unintended effect of harming liberties at home through enhancing the government's ability to engage in social control (Coyne and Hall 2018: 37–40). Coyne and Hall, in addition to the other thinkers mentioned, highlight the dangers of war to domestic liberty, the dangers highlighted by James

Madison in the following quote from his "Political Observances" from 1795:

> Of all the enemies to public liberty, war is perhaps the most to be dreaded, because it comprises and develops the germ of every other. War is the parent of armies; from these proceed debts and taxes; and armies, and debts, and taxes are the known instruments for bringing the many under the domination of the few. In war, too, the discretionary power of the Executive is extended; its influence in dealing out offices, honors, and emoluments is multiplied; and all the means of seducing the minds, are added to those of subduing the force, of the people…. No nation could preserve its freedom in the midst of continual warfare. (Quoted in Coyne 2022: 37–38)

Interstate federalism is intended to protect the person and property of the citizens of members states. The challenge, however, is the fundamental "paradox of government," which holds that any government agency strong enough to protect person and property is strong enough to undermine those very things. As such, an effective federation requires mechanisms to ameliorate this possibility in order for the cure not to be worse than the disease it seeks to address.

Conclusion

Interstate federalism has been proposed as one potential institutional solution to foster international peace. Over the course of centuries, classical liberals have identified a range of issues and challenges related to foreign policy and international relations. These challenges can be summarized in the following five propositions:

1. A public financing scheme must be developed that appreciates that the political leaders of members states have an incentive to act strategically through cost-shifting and cost-concealing; these strategic moves will operate both within member states and across members states.

2. Special interest groups will attempt to influence the policies of members states and the federation in ways that benefit group members at the expense of outsiders; the actions of special interest groups can undermine the activities and goals of the broader federation.
3. Defense and war spending, both within member states and for the federation itself, is an exercise in top-down central planning. The decision-makers of the member states and federation will need to allocate scarce resources absent market prices and profit and loss. As such, they face the same challenge as socialist planners as it relates to the core economic problem—determining how to best use scarce resources among an array of technologically feasible alternatives.
4. The establishment and operation of an international federation requires a shared set of general ethical principles regarding the scale and scope of the system. However, the ethical precepts of key decision-makers in member states may vary regarding the specifics of international relations. Moreover, the ethical precepts held by decision-makers within member states may shift over time. This can pose a challenge in executing a general and shared vision by the federation as a whole.
5. Creating any type of centralized political power faces the "paradox of government" whereby those tasked with protecting the person and property of the citizenry also pose a threat to those very things. Historically, foreign affairs are a key channel through which political power is centralized, individual liberties are curtailed, and constitutional constraints are permanently weakened.

Whether an interstate federalism system is feasible and sustainable depends on whether institutions and mechanisms can be developed that effectively address these challenges.

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