

Supplementing Hayek's Vision of Interstate Federalism

Insights from Deudney's Philadelphian System

by Vikash Yadav

Introduction

What are the conditions under which a federation or union of liberal states is possible in the international system?

This question preoccupied Friedrich Hayek's thinking on international relations from the nineteen-thirties onward as he looked to revive liberalism and ease the political frictions that were convulsing through Europe.¹¹⁹ Hayek would spell out the preconditions for a federation of liberal states in September 1939 in his essay, "The

¹¹⁹ The idea of creating a federated empire to solve problems on international relations was not new. In the 20th century, the idea dated to the Round Table Movement in 1909. (Stretching further back one finds Adam Smith favoring a federated solution to the troubles with the American colonies at the time of the publication of the *Wealth of Nations*). See: Jorg Spieker, "[F.A. Hayek and the Reinvention of Liberal Internationalism](#)," *The International History Review* 36, no. 5 (2014): 925.

Economic Conditions of Interstate Federalism,” published in *New Commonwealth Quarterly*.¹²⁰ Along with several prominent colleagues in the 12,000 member strong “Federal Union,” a proto-think tank on international affairs, Hayek had even travelled to France just two months before the German invasion to discuss ideas about European economic federalism with French economists.¹²¹ (Prime Minister Churchill would eventually propose an Anglo-French union in 1940 to prevent a French surrender to Germany, but the proposal arrived too late.¹²²) Hayek revisited these ideas just a few years later in Chapter 15 of *The Road to Serfdom* (1944). Toward the end of WWII, Hayek even proposed that the German *Reich* be broken up into its constitutive states and integrated into a European

¹²⁰ Friedrich A. Hayek, “[The Economic Conditions of Interstate Federalism](#),” *New Commonwealth Quarterly* V, no. 2 (1939): 131–49.

¹²¹ Or Rosenboim, “[Barbara Wootton, Friedrich Hayek and the Debate on Democratic Federalism in the 1940s](#),” *The International History Review* 36, no. 5 (2014): 907.

¹²² Rosenboim, “[Barbara Wootton, Friedrich Hayek and the Debate on Democratic Federalism in the 1940s](#),” 903; Schulz-Forberg Hagen, “[Economics for Peace: Contextualizing Neoliberal Federalism, September 1939 to April 1940](#),” *Global Perspectives (Oakland, Calif.)* (Los Angeles) 6, no. 1 (2025).

federation.¹²³ Decades later, he would again return to the idea of a federation in *The Constitution of Liberty* (1960),¹²⁴ and Volume 3 of *Law, Legislation, and Liberty* (1979)¹²⁵ as well as in scattered essays.¹²⁶ As Hayek believed the centralization of executive authority and unnecessary intervention in the market economy was energizing conflict and eroding individual freedom, his objective was to present a federation of liberal states as a solution. He specified how a sustainable federal state would be constrained by economic logic and consequently impose political limits on state intervention in the economy, thereby ushering a genuine liberalism marked by shared political values and limited government intervention. However, his argument

¹²³ Daniel Nientiedt, “[F. A. Hayek and the World of Tomorrow: The Principles of International Federalism](#),” *COSMOS + TAXIS* 10, no. 11 (2022): 98.

¹²⁴ Friedrich A. Hayek, *The Constitution of Liberty: The Definitive Edition*, ed. Ronald Hamowy, The Collected Works of F. A. Hayek, v. 17 (University of Chicago Press, 2011).

¹²⁵ Friedrich A. Hayek, *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice and Political Economy* (Routledge, 2012).

¹²⁶ Friedrich A. Hayek, *The Road to Serfdom: Text and Documents; The Definitive Edition*, ed. Bruce Caldwell, The Collected Works of F. A. Hayek, Vol. II (University of Chicago Press, 2007); Edwin Van de Haar, “[Ludwig von Mises and Friedrich Hayek: Federation as Last Resort](#),” *Cosmos + Taxis* 10, nos. 11–12 (2022): 115.

was impoverished by his inability to conceptualize the problem politically and historically at the level of the international system.

This short paper aims to supplement Hayek’s argument on “interstate federalism” with the seminal work of Daniel Deudney on the Philadelphian System, which explains when and how a “compound republic” or “states-union” is able to emerge in the international system. First, the paper will recap Hayek’s economistic vision of interstate federalism. Second, it will introduce Deudney’s Philadelphian System argument which stipulates the international context in which a states-union may evolve. Finally, the paper will offer thoughts on a Hayek-Deudney synthesis to guide liberals seeking solutions to international tensions in the current era or the future.

Hayek’s Interstate Federalism

While Hayek saw the immense potential for a political arrangement that permitted the free flow of men, money, and goods to create peace and prosperity through economic interdependence, his tone was wary because he knew that he would have to demonstrate that a viable arrangement was incompatible with a politically interventionist state

– an objective cherished by many of his colleagues who supported interstate federalism. His concern was that if (overt or concealed) interventions in the market were permitted in parts of a federation, it would lead to “increasing friction, cumulative retaliation, and even the use of force between the individual states.”¹²⁷ Such tension would ensure that the federation would not survive.

Therefore, a *sustainable* liberal federation of states is possible for Hayek only if the following conditions are met:

1. If an essentially liberal economic regime pre-exists within and between the constituent units alongside a political union.¹²⁸
2. If the federation has sole control over fiscal and monetary policy as well as exclusive control over all aspects of foreign relations including export and import policies.¹²⁹ A simple customs union would not need this provision, of course, but Hayek sees a common fiscal and monetary policy as

¹²⁷ Friedrich A. Hayek, *Individualism and Economic Order* (University of Chicago Press, 1980), 258.

¹²⁸ Hayek, *Individualism and Economic Order*, 256, 258.

¹²⁹ Hayek, *Individualism and Economic Order*, 256.

essential for entering into international treaties. If a federal state is formed to promote peace and prosperity, Hayek thought that it must take responsibility for all policies which harm or benefit other countries. A common monetary and fiscal policy also eliminates the instruments by which constituent units could erect protectionist barriers or provide implicit subsidies that would create the frictions he feared.

3. If the federation has a common defense policy and the strength of the federation cannot be hindered by overt or covert regional protectionism (e.g., tariffs).¹³⁰ The benefits and harms of a federation must be shared by all units; there cannot exist segregated and protected segments and local interests that skew a common defense policy.
4. If the federation prevents any economic policy that favors a particular industry (e.g., subsidies) in one region or constituent unit.¹³¹

¹³⁰ Hayek, *Individualism and Economic Order*, 256, 258.

¹³¹ Hayek, *Individualism and Economic Order*, 257, 262.

5. If there are no barriers to the free movement of men¹³², money, and goods within the frontiers of the federation. Free movement along with the absence of tariff walls (#3) would render it impossible for constituent units to alter prices as free movement would merely create arbitrage opportunities to whittle away price differences.¹³³ Free movement would also negate legislation that placed burdens on industries (e.g., child labor laws or limits on working hours) or which sought to limit commodities produced in other parts of the federation.¹³⁴ Later,

¹³² In the late seventies, Hayek would advocate for wise statesmen to lower the rate for foreign migration in order to prevent “an unpleasant reawakening of primitive instincts.” But this position, which Hayek characterized as a regrettable concession to nationalist/racist prejudices, has been maliciously misrepresented by left-wing academics as blaming minorities for the “origins of racialism,” a position that Hayek publicly rejected. Friedrich A. Hayek, “Origins of Racialism,” *The Times* (London), March 1, 1978; Sören Brandes, “From Neoliberal Globalism to Neoliberal Nationalism: An Interview with Quinn Slobodian,” *Ephemera* (Leicester) 19, no. 3 (2019): 641–49.

¹³³ Hayek, *Individualism and Economic Order*, 258.

¹³⁴ For a leftist reading of Hayek’s “supranationalism,” see: Werner Bonefeld, “[European Integration: The Market, the Political and Class](#),” *Capital & Class* (London, England) 26, no. 2 (2002): 130–31.

Hayek would use this framework to lay the groundwork for his concept of intergovernmental competition for potential citizens that fosters political restraint and the promotion of well-being.¹³⁵

6. If direct or indirect taxation is completely harmonized, such that taxation does not drive capital or labor elsewhere.¹³⁶
7. If the restrictions on member states also apply to trade and professional organizations.

If these conditions were met, Hayek believed they would prevent the emergence of durable factions or great divergences in the standard of living – the underlying sources of decay in a federation.¹³⁷

Overall, the extensive conditions laid out reflect Hayek’s skepticism toward the belief that: A.)

¹³⁵ Viktor J. Vanberg, “[Competitive Federalism, Individual Autonomy, and Citizen Sovereignty](#),” *Kyklos* 77, no. 4 (2024): 1052; Adam Harnes, “[The Political Economy of Open Federalism](#),” *Canadian Journal of Political Science* (New York, USA) 40, no. 2 (2007): 424; Jaroslaw Kantorowicz, “[Federalism](#),” in *The Oxford Handbook of Public Choice, Volume 2*, by Jaroslaw Kantorowicz, ed. Roger D. Congleton et al. (Oxford University Press, 2019), 78–79.

¹³⁶ Hayek, *Individualism and Economic Order*, 260.

¹³⁷ Hayek, *Individualism and Economic Order*, 257.

democratic or technocratic institutions could harmonize interests on which there was no pre-existing, widespread public agreement after the union had been created; and B.) that more prosperous areas would be willing to pay for increases in the living standards of poorer units.¹³⁸ Hayek did not embrace a Cobdenite *laissez-faire* assumption that there was a natural harmony of interests across borders which would be revealed once government intervention was severely restricted and trade was liberalized. Hayek accepted the necessity of government but sought to keep it limited.¹³⁹ Nevertheless, Hayek still believed that federalism was the route to international peace – the challenge was to set it on a proper, durable foundation.

Hayek's vision of federalism, although encased in logical arguments, obviously reflected his ideological preferences as a liberal political

¹³⁸ Hayek, *The Road to Serfdom*, 225; Rosenboim, "[Barbara Wootton, Friedrich Hayek and the Debate on Democratic Federalism in the 1940s](#)," 907; Brandon L. Christensen, "[Reviving the Libertarian Interstate Federalist Tradition: The American Proposal](#)," *The Independent Review* (Oakland, Calif.) (Oakland) 26, no. 3 (2021): 431.

¹³⁹ Spieker, "[F.A. Hayek and the Reinvention of Liberal Internationalism](#)," 936.

economist. What his vision did not adequately grapple with, however, was the viability of his federation in an international context. If his arguments are to regain salience today or in the future, they need to be supplemented with the work of liberal theorists in the discipline of International Relations to assess the idea's practicality in an increasingly tense multipolar world.¹⁴⁰

Deudney's Philadelphian System

Daniel Deudney's innovative argument begins by deconstructing several core assumptions of the discipline of International Relations (IR). Realists, as one of the dominant schools of IR since the early 20th century, assume that the international system is dominated by sovereign states in an anarchic environment. This framework implies that interstate unions, whether categorized as confederations, alliances, leagues, etc., should be exceedingly rare and ephemeral at best.

¹⁴⁰ Although Hayek wrote coherently within the liberal tradition on economic aspects of international organization, his work remains relatively marginal in the field of International Relations. See: Spieker, "[F.A. Hayek and the Reinvention of Liberal Internationalism](#)," 920.

However, this binary vision of Realists (i.e., anarchy and hierarchy) that is intellectually hegemonic today was originally contested. Deudney notes that while “republics” today are commonly considered a species of the genus state, the concept of the *res publica* was originally considered anti-thetical to the concept of *stato*.¹⁴¹ In early European thinking, states were considered “a hierarchically organized protection-providing entity monopolizing violence in a particular territory and possessing sovereignty and autonomy.”¹⁴² Such a vision of the state was unable to fully comprehend complex cases like Switzerland (i.e., the Helvetic Confederation), the German Empire (the Second Reich), or the early American republic. Realists could only understand these anomalies as “federal states” or “interstate confederations,” but not as a structural alternative to the European Westphalian state.

The deeply anomalous character of these “compound republics” or “states-union,”

¹⁴¹ Daniel H. Deudney, “[The Philadelphian System: Sovereignty, Arms Control, and Balance of Power in the American States-Union, Circa 1787-1861](#),” *International Organization* 49, no. 2 (1995): 192, JSTOR.

¹⁴² Deudney, “The Philadelphian System,” 192.

particularly the early United States of America, however, did not go unnoticed by leading political theorists. For example, the early US appeared to its most incisive observer, Alexis de Tocqueville, as two governments with twenty-four separate nations.¹⁴³ Unlike the “real-states” of Europe, the early United States did not seek or acquire a monopoly on the legitimate use of violence, instead it kept an armed citizenry and state level militias. In other words, these organizations existed along a spectrum between anarchy and hierarchy.¹⁴⁴ Although the state seemed to be federal, it was essentially an “anti-state.”¹⁴⁵ Antebellum America had a government but not a (European) state so much as select features of a (European) state, particularly in the realm of common defense. Even its territorial boundedness was contested as the frontier kept expanding westward, while its citizens systematically undermined the treaties it created with indigenous tribes and European colonial powers by encroaching on their lands. Although the units in the states-union had institutional “thickness” they were constrained by an architecture that bound their authority. The political

¹⁴³ Deudney, “The Philadelphian System,” 193, fn.#13.

¹⁴⁴ Deudney, “The Philadelphian System,” 194.

¹⁴⁵ Deudney, “The Philadelphian System,” 207.

entity sought to simultaneously manage internal and external security threats while preserving individual liberty. Finally, generative sovereignty was placed firmly with the people although political authority migrated through delegation to an elaborate set of rival political institutions. Understanding the American experiment as a structural alternative to the European state helps to explain how and why this states-union was able to succeed (for several decades) where many others have failed.

So how did this anomaly succeed for almost three quarters of a century (1787-1861)? There are several major and relatively unique factors which can be identified:

- 1) The constitutional re-formation of the constituent units along similar political lines prior to the establishment of the Union.
- 2) The willingness of constituent units to submit their conflicting territorial claims to arbitration rather than military confrontation.¹⁴⁶

¹⁴⁶ Of course, there were still some limited territorial conflicts in the early republic such as the Toledo War between Ohio and Michigan (1835-1836), the Honey War between the Iowa Territory and Missouri (1839) – but these conflicts were mostly bloodless.

- 3) The irregular geographic and demographic borders of the constituent units.
- 4) The relative separation of the United States from the military rivalries of the European great powers.¹⁴⁷

Deudney notes that between 1776 and 1787 the constitutions of all the constituent units that would form the states-union were rewritten. The polities that emerged were remarkably similar to one another in that their sovereignty was vested in the people and the powers of government were limited by written constitutions.¹⁴⁸ The units were notably weak and thus reliant on economic and military interdependence for survival.

The willingness of the original constituent units to renounce their colonial charters granting extensive and overlapping territorial claims, partly under pressure from landlocked units which refused to sign the Articles of Confederation without cessation of western lands, helped to offset the possibility of war between units.¹⁴⁹ The Northwest Ordinance of 1787, created under the Confederation, not only

¹⁴⁷ Deudney, "The Philadelphian System," 205–6.

¹⁴⁸ Deudney, "The Philadelphian System," 213.

¹⁴⁹ Deudney, "The Philadelphian System," 211.

designated the western lands ceded by Great Britain as the common property of the new republic, but also prevented the units from acting with imperial designs toward remote inhabitants of their tenuous territorial claims. By the same token, the desire for semi-autonomous or sovereign units (California, Texas, Utah, and Vermont) to join the United States, offset the emergence of European style balance of power politics,¹⁵⁰ potentially devastating military conflicts and strengthened the country's economy.

The eccentric geography of the new republic also aided in the survival of the experiment because the territories were neither the product of militarily defensible borders nor a reflection of ethnic division. These eccentric borders also meant that a significant degree of economic activity could be rendered interdependent – apart from the divergent sectional interest in the use of forced labor between northern and southern units that would come to destroy the union. Finally, the role of geographic distance in limiting state power is often underestimated. Today, with instant communication and overwhelming surveillance, the ideal of limited

¹⁵⁰ Deudney, "The Philadelphian System," 217–18.

government and individual liberty is under constant threat.

Separation from the military entanglements of European great powers, at least after gaining Independence with the help of the French monarchy, and the relative weakness of rival groups on the North American continent, limited the need for a strong, centralized executive branch.¹⁵¹ The United States was able to focus on economic relations with Europe and the acquisition of status as a “treaty worthy” sovereign state.¹⁵² The absence of powers capable of balancing against the early United States within North America, facilitated the American experiment. If the Amerindians or European offshoots had balanced effectively against the United States, the early republic would most likely have had to transform into a semi-conventional Westphalian state much earlier than it did.

Another factor that aided the American experiment was distant hegemony. British rule, by being

¹⁵¹ Deudney, “The Philadelphian System,” 210.

¹⁵² Rohan Mukherjee, *Ascending Order: Rising Powers and the Politics of Status in International Institutions*, Cambridge Studies in International Relations 160 (Cambridge University Press, 2022), 55–82.

“episodic, incoherent, and distant” aided in the formation of the union.¹⁵³ The remote exercise of power ensured that the colonies were lightly governed, and only basic services were provided at relatively low cost. The states-union actually modelled itself on this hegemony even as they rebelled against it. The Americans created a “peculiar combination of order without strong central direction.”¹⁵⁴

This pattern of relative isolation and/or remote hegemony has been rare in the modern state system (conventionally dated from 1648 CE to the present).¹⁵⁵ An example might be the Concert of Europe, which emulated the era of American insulation and dampened great power rivalry by resolving conflicts – at least until Austrian and Russian expansion shifted relative power positions.¹⁵⁶ One could also argue that American hegemony over Europe after WWII was similarly “episodic, incoherent, and distant” permitting (and

¹⁵³ Deudney, “The Philadelphian System,” 213.

¹⁵⁴ Deudney, “The Philadelphian System,” 214.

¹⁵⁵ The Old Swiss Confederacy (1291-1798 CE) predates the modern state system having emerged from within the Holy Roman Empire.

¹⁵⁶ Deudney, “The Philadelphian System,” 219.

even fostering) the emergence of a formal states-union on the European sub-continent.

The long-term viability of a states-union depends on a delicate balance of internal and external pressures. The major forces that broke the early American republic were mainly internal: extremely rapid territorial/demographic expansion and the persistence of slavery which created polarized and durable regional interests.¹⁵⁷ The US transformed into a federal state after the Civil War as it established the superiority of the central government over its constituent units and expanded the scope of citizenship despite the initially weak inherited political architecture.

Hayek-Deudney Synthesis

Although Deudney's article was published three years after Hayek's death, it is likely that Hayek would have been attracted to Deudney's formulation of the *res publica* or states-union as a middle point on the spectrum between anarchy and hierarchy. Hayek would agree that the primary benefit of interstate federalism was to prevent war between the units of the federation, which is why he looked

¹⁵⁷ Deudney, "The Philadelphian System," 220.

favorably upon the ability of the early American republic to manage conflict between its constituent units.¹⁵⁸

A synthesis with Deudney's argument would also help to specify the intended political limits to Hayek's project. Certain scholars overstate the horizon of Hayek's political intentions in promoting inter-state federalism. The notion that Hayek dreamed of interstate federalism on a "world scale," for example, mischaracterizes his complex position.¹⁵⁹ Although Hayek's vision could be expansive and certainly supra-national,¹⁶⁰ his vision of interstate federalism (a *Bundesstaat*) was not a vision of a unitary global power or world government. Hayek's expansive thought was inspired by the work of Clarence K. Streit, a foreign correspondent for the *New York Times*, who in 1938 had proposed a kind of "*laissez-faire*" federation of the democracies of Western Europe, the United

¹⁵⁸ Hayek, *Individualism and Economic Order*, 255.

¹⁵⁹ Nientiedt, "Hayek and the World of Tomorrow," 98; Gerreth Bloor, "[Was Hayek a One-Worlder?](#)" | Mises Institute," *Mises Institute*, March 27, 2019.

¹⁶⁰ Hayek, *Individualism and Economic Order*, 270, fn.#9.

States, and the dominions of the British Empire.¹⁶¹ Streit's ideas had spurred a number of leading intellectuals and politicians to consider federalism as a means of protecting democracy against the rising force of fascism and national rivalry as the world edged closer to another major war. In 1939, Hayek endorsed his colleague, Lionel Robbins' advocacy of a "liberal world federation," by specifying it must be neither a loose confederation (*Staatenbund*) nor a completely unitary state (*Einheitsstaat*).¹⁶² In any case, the endorsement was for a *liberal* world federation. Even his harshest (and most unscrupulous) critics acknowledge that Hayek explicitly rejects the creation of a world state as an even greater danger for civilization than war.¹⁶³ Hayek's political aim was to move away from a *laissez-faire* state without morphing into a homogenous, centralized, interventionist state. The aim was a moderate and balanced position for a proposed Anglo-French Union. Thus, Hayek would

¹⁶¹ Rosenboim, "[Barbara Wootton, Friedrich Hayek and the Debate on Democratic Federalism in the 1940s](#)," 898; Clarence K. Streit, *Union Now: A Proposal for a Federal Union of the Democracies of the North Atlantic* (Harper & Brothers Publishers, 1938).

¹⁶² Nientiedt, "Hayek and the World of Tomorrow," 98.

¹⁶³ Ingar Solty, "[Friedrich August von Hayek Was an Enemy of Freedom](#)," *Jacobin*, May 8, 2024.

find inspiration in Deudney's articulation of the Philadelphian System which lays out the delicate balance between internal and external power projection, as well as between the units of states-union required to stabilize a large – but not universal - liberal polity.

Of course, Hayek did use the term “interstate federalism” rather than a “states-union” or “compound republic” but this did not imply a desire for a strong state so much as (perhaps) a limited engagement with Comparative Politics and International Relations – hardly a fault of polymath trained in other disciplines. Hayek believed that powers denied to constituent units could only be transferred to the federal level to a limited extent.¹⁶⁴ In part, this limitation stemmed from the persistence of the constituent units as semi-autonomous entities and thus the need for the federal government to act only on those items which have true agreement and support from the constituent parts.¹⁶⁵ In fact, even in the realm of taxation, while Hayek argues that states

¹⁶⁴ Hjalte Lokdam, “[Beyond Neoliberal Federalism?: The Ideological Shade of the Eurozone’s Constitutional Order after the Eurozone Crisis](#),” in *European Constitutional Imaginaries*, 1st ed., ed. Jan Komárek (Oxford University Press Oxford, 2023), 304.

¹⁶⁵ Lokdam, “Beyond Neoliberal Federalism?,” 304.

should be able to raise funds through compulsion, he argues that this power may be delegated to local and regional authorities rather than the central government.¹⁶⁶ In economic policy, Hayek was advocating a middle ground between *laissez-faire* liberalism and the interventionist state. In other words, Hayek's vision of interstate federalism is actually quite similar to the type of regime that emerged in America before the Civil War. Certainly, Hayek would prefer the early republic to the governments that emerged in America after the Civil War and the Great Depression.

Hayek supported federalism as an extension of democracy and as a method of peaceful change to the international sphere.¹⁶⁷ On Actonian grounds, he believed that since federal polities tended to encompass a larger collection of individuals, they could prevent the rise of narrow nationalist or other particularist preferences. The (perhaps deductively overly optimistic and empirically questionable) logic is that in a larger polity, with many diverse

¹⁶⁶ Friedrich A. von Hayek, *Law, Legislation and Liberty*. 3: *The Political Order of a Free People*, 6. [print.] (The University of Chicago Press, 1997), 45, 133.

¹⁶⁷ Ekkehard A. Köhler and Daniel Nientiedt, "[Democracy, Demarchy, and International Federalism](#)," *Isonomia Quarterly*, 2024, 136–43.

interests, it will be difficult to enact legislation that benefits only certain groups or regions. Thus, in a large federal state, the government will ideally implement laws that truly benefit the interests of all citizens.¹⁶⁸ Hayek was certainly skeptical that such agreement would come easily.¹⁶⁹ This is similar to Deudney's argument that the early American republic aimed to not only counter factions by creating cross-cutting cleavages but to create a system of negative constraints on the institutions of government. In other words, both Hayek and Deudney see federations as fostering limited liberal governance through a type of "negative integration."¹⁷⁰

Nonetheless, Deudney's insights on the ability of a states-union to emerge and thrive in an international system, should give great pause to Hayek's vision. A viable project is only possible in particular international contexts. Multipolarity, for example, does not necessarily create the conditions in which a states-union can thrive as the balance-of-power logic necessitates a measure of internal balancing

¹⁶⁸ Nientiedt, "Hayek and the World of Tomorrow," 100.

¹⁶⁹ Köhler and Nientiedt, "Democracy, Demarchy, and International Federalism," 141.

¹⁷⁰ Lokdam, "Beyond Neoliberal Federalism?," 303.

(i.e. arms acquisition and military expansion) alongside external balancing (i.e., alliances) to ensure autonomy. A benign and remote hegemony paired with relative insulation from balance of power logics is the most fertile terrain for a states-union to take root. But even here the possibility for preventing conflict amongst the constituent units is challenging, particularly if they have conflicting territorial claims, reinforcing cleavages, or widely divergent economic interests and levels of development. An aggressive regional hegemon can even extinguish a compound republic as Napoleonic France did to the Old Swiss Confederacy in 1798.

But this should not be taken to imply that Hayek could not have foreseen limitations on the viability of his interstate federation idea. For Hayek, the heterogeneity of the constituent units placed limits on governmental capacity. While this condition is generally favorable to supporting minimal government intervention in the market, it could obviously also imperil the union if there is a common currency – a tension anticipated in Hayek’s preconditions for the formation of a liberal interstate federation. Hayek would not have been surprised that in the European Union, for example,

the persistence of economic heterogeneity resulted in the evolution of varieties of capitalism and varieties of growth models that ultimately threatened the stability of the monetary union during the Eurozone crisis of 2008-2018.¹⁷¹ The emergency response of the EU to this crisis aimed to force convergence through conditionality thus eroding the heterogeneity that constrained the union. Rather than celebrating the forced homogenization of the constituent units under emergency conditions, Hayek would most likely have seen the crisis as the product of a failure of members to understand the political implications of their economic and monetary union resulting from overly eager expansion of membership. Hayek's aim was not totalizing homogenization, but diversity and self-restraint as a constraint on delegated powers except for those areas in which diverse units could form true consensus.

Hayek was also well aware that the early founders of the early American republic ultimately failed to create a perpetually limited form of self-governance and that the separation of powers failed in its grander objective. Hayek wrote:

¹⁷¹ Lokdam, "Beyond Neoliberal Federalism?," 310–11.

“What can we do today, in the light of the experience gained, to accomplish the aims which, nearly two hundred years ago, the fathers of the Constitution of the United States of America for the first time attempted to secure by a deliberate construction? Though our aims may still be the same, there is much we ought to have learnt from the great experiment and its numerous imitations. We know now why the hope of the authors of those documents, that through them they could effectively limit the powers of government, has been disappointed. They had hoped by a separation of the legislative from the executive as well as the judicial powers to subject government and the individuals to rules of just conduct. They could hardly have foreseen that, because the legislature was also entrusted with the direction of government, the task of stating rules of just conduct and the task of directing particular activities of government to specific ends would come to be hopelessly confounded, and that law would cease to mean only such universal and uniform rules of just conduct as would limit all arbitrary coercion. In consequence, they never really achieved that separation of powers at which they had aimed. Instead they produced in the USA a

system under which, often to the detriment of the efficiency of government, the power of organizing and directing government was divided between the chief executive and a representative assembly elected at different times and on different principles and therefore frequently at loggerheads with each other.”¹⁷²

While Deudney attributes the collapse of the early republic to expansion and ossified regional interests rather than a failure to maintain a separation of powers (or negative integration), both men would agree that the early republic failed and was replaced by a real-state after the Civil War.

Conclusion

Hayek argued that 19th century liberalism failed because it became enmeshed in nationalism and later (unwittingly) allied to socialism.¹⁷³ His hope was an interstate federation that transcended nationalism would provide a new foundation for a revival of liberalism and an era of peace and prosperity. Although many scholars have pointed to the European Union as an instantiation of Hayek’s

¹⁷² Hayek, *Law, Legislation and Liberty*. 3, 105–6.

¹⁷³ Hayek, *Individualism and Economic Order*, 270.

vision,¹⁷⁴ it is likely that Hayek would find aspects of the Union to be antithetical to his goals. The EU is riddled with internal tensions and has shown a willingness to use forms of economic coercion to instill conformity. Deudney might add that the viability of the EU, like any states-union, has long been predicated on a benign and remote hegemon that dampened the need for balance-of-power politics. The first quarter of the 21st century has shown that the conditions in which the Union emerged no longer prevail as the United States, Russia, and China seek to restore exclusive spheres of influence at the expense of neighboring democratic states.

Vikash Yadav is Professor of International Relations at Hobart and William Smith Colleges. Send him mail at vyadav@hws.edu.

¹⁷⁴ Martin Höpner and Armin Schäfer, “[Embeddedness and Regional Integration: Waiting for Polanyi in a Hayekian Setting](#),” *International Organization* (Cambridge) 66, no. 3 (2012): 449, 1690886238, ProQuest One Academic; ProQuest One Business; Social Science Premium Collection.