

# A World Safe for Capital

## How Neoliberalism Shaped the International System

Stephen Wertheim

*Globalists: The End of Empire and the Birth of Neoliberalism*

BY QUINN SLOBODIAN. Harvard University Press, 2018, 400 pp.

The historian Quinn Slobodian has written a book that is likely to upset enthusiasts of the “liberal world order.” In *Globalists*, he tells the story of how a small set of intellectuals in central Europe laid the foundations of institutions such as the European Union and the World Trade Organization (WTO), commonly held up today as bulwarks of liberal democracy. Slobodian reveals that these thinkers, who called themselves “neoliberals,” sought to do more than counter fascism and communism, as the conventional wisdom holds. They also wanted to suppress the power of democratic publics. Ordinary people, organized as citizens and workers, posed a grave threat to the neoliberals’ supreme goal: a global economy integrated by the flow of capital.

The main characters in this tale are the intellectuals who orbited the famous economists Friedrich Hayek and Lud-

wig von Mises in the years after World War I. Slobodian dubs this group “the Geneva School” because, between the world wars, they gathered in the Swiss capital in order to formulate their project. Hayek and Mises, who both hailed from Austria-Hungary, are more commonly known as the foremost exponents of “Austrian economics,” a school of thought that prizes the freedom of markets from state intervention. Slobodian shows how the two thinkers led a network of politically influential economists in Vienna but also places them in the context of a continent-wide and, eventually, transatlantic movement, incubated in Geneva’s League of Nations. As the Depression struck, the league became the place where experts decided that “the world problem,” as a group of experts convened by the league put it in 1931, “should be studied on a world basis.” Hayek, Mises, and their acolytes constructed models and assembled statistics to represent the new entity called “the world economy.” By 1938, some members of the cohort began to describe themselves as neoliberals, seeing their mission as adapting liberalism so that it could survive the inhospitable environs of the twentieth century.

The Geneva neoliberals, Slobodian shows, were seized with a persistent problem: how to insulate property rights from mass democracy. This problem was evident from the moment Europe descended into war in 1914, and it only intensified as empires collapsed and nation-states proliferated. Each new nation-state meant a new claim of popular sovereignty, empowering the many to expropriate the property of the few. And each new nation-state erected a new set of borders, impeding

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the movement of capital, goods, and labor. Where political nationalism began, it seemed, economic nationalism was never far behind. “The mines for the miners’ and ‘Papua for the Papuans’ are analytically similar slogans,” the British economist Lionel Robbins observed, unhappily, in 1937.

With the forces of history arrayed against them, the Geneva neoliberals devised a solution. It was not enough to let markets work their magic, since democratic publics had begun to sour on laissez-faire capitalism. So in addition to unfettering markets, the neoliberals sought to design institutions that would shelter property from the grasping hands of the mobilized masses and newly formed states. “Laissez-faire—yes,” the German neoliberal economist Wilhelm Röpke wrote in 1942, “but within a framework laid down by a permanent and clear-sighted market police.”

How, though, to create a police force that would protect and serve international capital rather than national economies? Here Slobodian makes a groundbreaking contribution. Unlike standard accounts, which cast neoliberals as champions of markets against governments and states, Slobodian argues that neoliberals embraced governance—chiefly at the global level. By going above national borders, they neutralized politics within those borders, so that democratic governments could not obstruct the security and mobility of property. Gradually, despite encountering resistance at every turn, they helped build a world order guided by the principle of “capital first.” For Slobodian, their success casts a disturbing light on many of the international rules and institutions that make up today’s global order—but

also shows how different people, with a different program, could change them.

### POWERS TO SAY NO

Although the thinkers influenced by Hayek and Mises are the main characters in Slobodian’s story, two more familiar figures lurk in the background: Vladimir Lenin and Woodrow Wilson. The Bolshevik revolutionary and the American president represented, in the eyes of the Geneva School neoliberals, the two main threats to capital: labor militancy (Lenin) and the principle of national self-determination, at least for white people (Wilson). In World War I, those two forces brought down the Habsburg empire of Hayek’s and Mises’ youth, a catastrophe that unmade their world. Habsburg rule had created an economic unity out of multiple nationalities and nested sovereignties. For Mises, born to Jewish parents in present-day Lviv, Ukraine, the empire’s cosmopolitan harmony was bound up with the way it integrated the economies of its constituent communities. Now the war unleashed egoisms of all kinds. As Mises complained in 1927, “Even countries with only a few million inhabitants, like Hungary and Czechoslovakia, are attempting, by means of a high tariff policy and prohibitions on imports, to make themselves independent of the rest of the world.”

During the 1920s, the neoliberals made their mark by carrying out cutting-edge research into business cycles. Working for associations such as the Vienna Chamber of Commerce, they focused on how economies function, seeking to make economic activity visible through indexes and charts. Gottfried Haberler, a Mises protégé,



*Market maker: Friedrich Hayek in London, July 1983*

convened study groups at the League of Nations that attempted to demonstrate how business cycles in one country depended on those in every other. But as the Great Depression pushed more economists to follow the lead of John Maynard Keynes and develop models of the national economy (all the better to plan it), the Geneva School economists had a change of heart. They began to argue that economic activity was not so quantifiable and perceptible after all but actually “sublime and ineffable,” Slobodian writes. Retreating from statistics and graphs, the neoliberals took up a different task: to establish frameworks under which capital, goods, and services (people came a distant

fourth) could traverse the globe, with property owners assured of maintaining their rights.

In order to combat national economic planning, they turned to global institutional design. By the eve of World War II, the neoliberals had set out to re-create something like the Habsburg model and project it onto as vast an area as possible. It was this reactionary impulse—to undo the disintegration of imperial orders—that distinguished the neoliberals from classical liberals, such as John Stuart Mill, who imagined that the world would march toward a future of ever-closer integration. Classical liberals put their faith in historical progress; neoliberals, ironically, hoped to recover a past idyll. But they were innovative all the

same. Perhaps they could even improve on the Habsburg legacy. Whereas the empire had demanded the allegiance of its subjects, flying flags that could be saluted but also torn down, Hayek theorized a system of rules without politics. What remained invisible would not inspire loyalty, yet neither would it provoke resistance.

Events, however, failed to cooperate. World War II delivered victories for communism in eastern Europe and social democracy in the West, set off a wave of decolonization in Asia, and produced the Bretton Woods system of capital controls. Out of desperation, the neoliberals thought big. They dreamed up schemes for strong supranational federations imbued with what Hayek called “powers to say no” to states tempted to impede the circulation of money and downgrade the influence of foreign investors and bondholders. To be sure, the neoliberals hardly favored a world government; that would merely magnify the problems they saw at the state level. Rather, they sought a patchwork of rules-based institutions that would constrict nation-states without being accountable to any public. In the neoliberal vision, Slobodian writes, ordinary people would experience the economy as they did the weather, as a sphere “outside of direct human control.”

By the late 1940s, this approach had yielded some gains. The neoliberals, led by the Polish American economist Michael Angelo Heilperin, rallied international business representatives to block the International Trade Organization proposed by the new UN Economic and Social Council. The organization’s charter, the economist warned the businesspeople, was a “dangerous

document”: it enshrined the national protection of infant industries through tariffs, and it operated on a one-nation, one-vote principle, unlike the hierarchical International Monetary Fund and World Bank. Heilperin advised Lee Bristol, the president of the pharmaceutical giant Bristol-Myers, to lobby Congress to kill the charter, and by 1950, the International Trade Organization was dead.

In its place, the neoliberals cheered on the General Agreement on Tariffs and Trade, which 23 countries signed in Geneva in 1947. The GATT required states to reduce tariffs and other barriers to trade and locked in those reductions through its “most favored nation” principle, which limits the extent to which countries can treat their trading partners differently. The neoliberals didn’t have much direct influence on the GATT, Slobodian concedes. But they saw in it a basis for the future.

## **THE NEOLIBERAL TRIUMPH**

In the 1950s, the neoliberals began to win big, starting in their home continent. In the United States, President Franklin Roosevelt’s New Deal had sought to protect four freedoms: the freedom of speech and expression, the freedom to worship in one’s own way, the freedom from want, and the freedom from fear. The European Union, which began to take shape in the late 1940s and 1950s, sought to secure four rather different freedoms: the freedom of capital, goods, services, and labor. These freedoms would be achieved by setting economic rule-making above the authority of formally sovereign member states. At first, the Geneva neoliberals were divided over the Treaty of Rome, which

established Europe's common market in 1957. Slobodian shows how older neoliberals initially resisted "bloc Europe" because it hoisted protective barriers against most of the outside world.

Haberler issued a report under the auspices of the GATT that blasted European integration for discriminating against others, and he won support from 15 states in the global South.

But younger, more pragmatic neoliberals thought differently. From inside the West German economics ministry, Ernst-Joachim Mestmäcker worked to make sure the European common market would eliminate the power of nation-states to impinge on trade. In the incipient European Union, he saw a model of multilayered governance and a concrete step toward the reign of capital across the globe. Neoliberals such as Mestmäcker valued the EU precisely for what critics would later dub its "democratic deficit." Anonymous technocrats would implement rules from above; below, states would keep order and pursue agendas that would not reduce the EU's prerogatives.

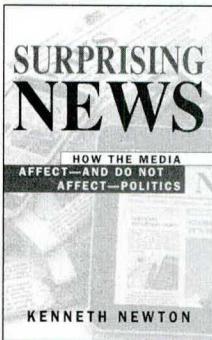
In the 1960s, Mestmäcker, citing Hayek, supported the European Court of Justice as it established the supremacy of European over national law. The neoliberals had made an ironic discovery: the best way to integrate global capital was to keep political integration perpetually partial. In this way, nation-states would lack the authority to deviate from the preordained rules, and international political organizations would lack the will to do so.

A highlight of *Globalists* is the attention it lavishes on neoliberals' encounter with the developing world. Slobodian gives the North-South axis priority over



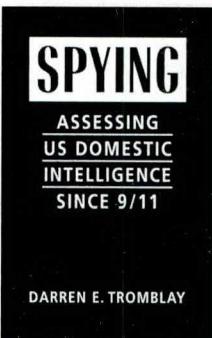
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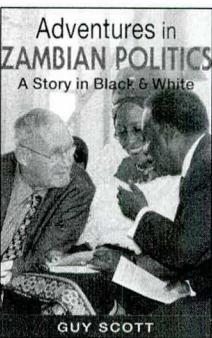


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the East-West divisions of the Cold War—as some neoliberals did themselves. One of the reasons the EU initially troubled older neoliberals was that it let some of postcolonial Africa into its magic circle, bestowing on former European colonies access to the common market and a development fund. Haberler, among others, preferred to consign the entire global South to what he saw as its proper role in the global division of labor: producing basic commodities. In 1979, Haberler, by then the first resident scholar at the American Enterprise Institute, professed to be alarmed less by communism and Western protectionism than by demands from leaders in the Third World. A group of 77 states, rallying at the UN, was calling for the creation of a “new international economic order.” Having achieved independence from their former colonial masters, these states were now embracing everything that the neoliberals opposed: rapid industrialization, national sovereignty over natural resources, regulation of multinational corporations, and redistributive justice on a global scale. The Group of 77 failed to achieve its vision, due to conflicts among its members and creative diplomacy by wealthy countries. But its specter spurred the neoliberals to regroup and press for a new international economic order along the lines they preferred.

In the 1980s, neoliberals devised new ways to contain economic nationalism. Disciples of Hayek, such as Ernst-Ulrich Petersmann, Frieder Roessler, and Jan Tumlr, sought to expand and institutionalize the GATT into a kind of European Union for the world. In the legalistic EU, crowned by the European Court of Justice, they saw a model

for how to force countries to respect and carry out decisions made by a supranational entity that lacked an army. They scored a victory in 1995 with the establishment of the WTO, whose Dispute Settlement Body and Appellate Body adjudicate not only the “at the border” issues once covered by the GATT but also services, intellectual property, and a range of standards that intrude “beyond the border.” Although Slobodian says little about the negotiations that directly produced the WTO, he shows the deep debt paid to Hayek by influential theorists such as Petersmann, a pioneer of the field of international economic law.

In Slobodian’s telling, neoliberalism finally triumphed in the 1980s and 1990s with the creation of the WTO, as well as the proliferation of agreements that protected the rights of foreign investors and the tightening of “structural adjustment” criteria for International Monetary Fund and World Bank assistance to developing countries. On these issues, Slobodian’s Geneva School of early neoliberals converged with Anglo-American groups and figures to whom the term “neoliberal” is more conventionally applied: the Chicago School of the economist Milton Friedman, the Virginia School of the economist James Buchanan, and the thinkers and policymakers behind the political revolutions of Margaret Thatcher and Ronald Reagan. By the turn of the century, as Slobodian writes, the rules and institutions pushed for by the neoliberals meant that countries in the global South, although formally independent, would find it nearly impossible to overcome their “subjection to the forces of the world market.” The point applies to rich countries as well.

Despite his sweeping story, Slobodian avoids the reductive approach of some leftist critiques that depict neoliberal ascendancy as a shadowy menace pervading every nook and cranny of human society. In fact, he highlights how neoliberalism's victories have consistently generated backlashes. The WTO appeared to realize the neoliberals' quest to protect global capitalism against pressures from below. Yet in 1999, just four years after the organization came into being, its annual meeting was shut down by massive protests in Seattle—the very kind of democratic resistance that the neoliberal project was supposed to discourage. The act of creating a formal body such as the WTO had rendered all too obvious just how little power publics exercised in crucial economic decision-making. The WTO ignored Hayek's warning that the global economy should always remain invisible and anonymous, so as not to draw the gaze of the masses.

### **A WAY OUT?**

*Globalists* is intellectual history at its best. By reconstructing how neoliberals themselves conceived of their project over time, Slobodian convincingly rebuts the prevailing view, taken by exponents and critics alike, that neoliberalism merely seeks to free markets from the shackles of the state. In reality, neoliberals clearly wish to harness state power in circumscribed ways. Slobodian reveals, for example, that Mises welcomed the Austrian state's deadly repression of a general strike in 1927. "Friday's putsch has cleansed the atmosphere like a thunderstorm," Mises wrote to a friend. Five decades later, Hayek paid a visit to the Chilean dictator Augusto Pino-

chet and expressed his preference for "a liberal dictator to a democratic government lacking liberalism"; neoliberal Chilean economists who had been trained at the University of Chicago also helped the Pinochet regime use the tools of authoritarian power to enact market reforms. Slobodian puts these episodes in context. He establishes that, all along, neoliberals have targeted the collective power of citizens more profoundly than they have targeted the coercive apparatus of states. Their goal, Slobodian concludes, has been "not to liberate markets but to encase them": to shelter global capitalism from a hostile world.

A weakness of Slobodian's book follows from its strength. Hewing closely to the ideas of his protagonists, Slobodian struggles to demonstrate exactly how they influenced particular international rules and institutions. Readers may wonder just how strong a connection exists between the intellectuals he profiles and the developments he credits them with shaping. Moreover, because he focuses on one source of inspiration for international bodies, some may read into *Globalists* an attack on global governance as a whole. In *The American Historical Review*, for example, the historian Jennifer Burns complained that Slobodian tars the entire international order as a neoliberal plot. "By not weaving in the voices of contrasting intellectuals or narrating the founding moments of the most important supranational institutions," she writes, "Slobodian conveys a misleading picture of why so many policymakers and elites embraced global institutions in the twentieth century." This is a weighty charge, especially coming at a time when existing institutions are under assault

by nationalists from the left and the right. Does Slobodian support their cause by impugning the very project of global governance as a handmaiden of capital?

Not quite. In fact, Slobodian's story reveals the limits of the neoliberals' power as much as their strength. As he shows, the neoliberals were on the defensive for most of the twentieth century. It was their adversaries who controlled the most powerful countries and set up the UN, the International Monetary Fund, and the World Bank to secure social welfare around the world. The neoliberals constantly battled against, around, and within these institutions. Only after the 1970s did the neoliberals ascend and remake the global order—and only partially, never completely. For opponents of neoliberalism today, the lesson to draw is hardly to exalt the nation above the globe. It's just the opposite: to take the fight to the international level and either win power in existing institutions or establish new ones. The neoliberals did so at the end of the twentieth century, and social democrats and socialists could do the same in the twenty-first.

At the same time, Slobodian's account makes clear the difficulty of bringing popular power to bear at the international level. The neoliberals triumphed for a reason: by the 1970s, global governance had become an elite preserve, where well-placed intellectuals could mount a takeover. Although Slobodian doesn't say so, whatever potential existed for mass mobilization on the international level was probably snuffed out when the leaders who designed the international institutions confined participation in them to the executives of national governments rather than representatives

chosen by parliaments or elected directly by publics. The latter possibilities were entertained during and shortly after World War I, when a number of citizens' groups advocated European or worldwide bodies that would be subject to democratic control. But the architects of the League of Nations and the UN chose to empower heads of governments, such as themselves. Requiring national leaders to represent their entire publics to the world, international institutions offered little opportunity for publics to take responsibility for international affairs and form allegiances across national borders. There was never a chance that mobilized publics would ever get a hearing in the halls of the United Nations, much less the WTO. In this sense, the neoliberal globalists owe an ironic debt to their nationalist rivals for containing mass democracy.

Many advocates of international cooperation today make a grave mistake when they lump all norms, laws, and institutions together into a single "liberal world order" that must be defended, all or nothing. Their populist and nationalist opponents make the same error in seeking to tear down "globalism." What Slobodian's history shows is that the contemporary order emerged from contestation and struggle, that it has changed profoundly over time, and that at the very least its origins are more complex than those usually presented by its defenders and its detractors. The meaningful question has never been whether to have world order or not; it is what the terms will be and who will set them. In 2019, that question remains open ended, much as it was in 1919. The only certainty is that those who retreat within the nation do so at their peril. ●

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