

A NOTE ON DE-HOMOGENIZING ECONOMIC AND POLITICAL INTEGRATION FROM A PRAXEOLOGICAL PERSPECTIVE



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Abstract

This paper is going to analyze and de-homogenize two distinct phenomena: economic integration and political integration. On the one hand, this paper is going to restore economic integration to the scope of economic science. The essence of economic integration consists in the extension and intensification of the division of labor, a self reinforcing process that originates in the voluntary interaction between individuals. All we can infer from a theoretical perspective is that: at all times, in an unhampered market, all entrepreneurial projects, from all regions, are going to push specialization, and, therefore, economic integration to their praxeologically relevant limits. Based on this insight and on the counterfactual approach of property economics, we concluded that any other standard that is used to analyze economic integration, like perfect competition or the general equilibrium, is arbitrary. Furthermore, any attempt to bring the real economy closer to such a standard, can only be done through the use of the political means and therefore can come only at the expense of the entrepreneurial market order and of the praxeologically relevant limits of economic integration. On the other hand, political integration originates in coercive interaction, and it represents a manifestation of political cooperation. Political integration is an option that policymakers can choose to adhere to in their attempt to limit international political competition, alleviating its effect on the economic and ideological limits of political action. From an a priori perspective, all we can say about political integration is that, in case policymakers decide to pursue it, it will postpone the moment when the limits of political actions are reached, but it will do so at the expense of the division of labor. Therefore, not only are political and economic integration, by their very nature, distinct phenomena, but the first can only come at the expense of the latter.

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INTRODUCTION

Since the end of the Second World War, the historical event that marked the “apotheosis of the state” (van Creveld, 1999) and the age of “omnipotent government” (Mises, 2010), the world stage witnessed a boom in the number of independent countries. United Nations membership expanded from 51 original members in 1945, to 193 members in the present. This may lead one to the conclusion that the post-war world is characterized by political disintegration. But such a conclusion is invalidated by both a broader view of history¹ that harks back a few centuries, and by a

¹ For example, Hoppe (2001) analyzes the historical tendency of states toward promoting an increased political centralization. In this vein, he asserts:

“A glance at Western history suffices to illustrate the validity of this conclusion. At the beginning of this millennium, for instance, Europe consisted of thousands of independent political units. Now, only several dozen such units remain. To be sure, decentralizing forces also existed. There was the progressive disintegration of the Ottoman Empire from the sixteenth century until after World War I and the establishment of modern Turkey. The discontinuous Habsburg Empire was gradually dismembered from the time of its greatest expansion under Charles V until it disappeared and modern Austria was founded in 1918. And only recently, before our very eyes, the former Soviet Empire disintegrated. There are now more than a dozen independent states on the soil of the former Soviet Union. The former Yugoslavia consists now of Slovenia, Croatia, Serbia, Macedonia, and Bosnia. And the Czechs and the Slovaks have split and formed independent countries. However, the overriding tendency was in the opposite direction. For instance, during the second half of the seventeenth century, Germany consisted of some

more nuanced analysis of recent history. The political disintegration trend that seems to characterize the past seventy years has been partly offset by a parallel process that acts in the opposite direction: the growing number of regional trade agreements (RTA).

Up to the present time, the World Trade Organization (WTO), the intergovernmental organization that establishes the framework for the multilateral trading system, has received a number of 625 notifications of RTAs, of which 419 are in force. Research indicates that such agreements, which are an exception to the WTO's first principle of "trade without discrimination" (WTO, 2015), have been a "central feature in the development and evolution of the postwar trading system rather than the exception, and this has been despite the growth in importance of GATT/WTO" (Whalley, 1998).

RTAs are not mere agreements between sovereign states to slash the barriers constraining the international free circulation of resources between their territories. Liberalization and the counterfactually identifiable advancement of the division of labor that would follow it require "no more than a minister's or legislature's signature" (Finger, 1999). But RTAs go beyond liberalization, and provide for supranational (political) institution building and international interventionism. In this sense, RTAs are not simple liberalization agreements, but managed trade agreements that seek the harmonization of regulation and impose policy measures through supranational institutions (Rothbard, 2006; Batemarco, 2007; Jora and Butiseacă, 2014). Whalley's (1998) empirical study briefly synthesizes the same idea:

234 countries, 51 free cities, and 1,500 independent knightly manors. By the early nineteenth century, the total number of the three had fallen to below 50, and by 1871 unification had been achieved. The scenario in Italy was similar. Even small states have a history of expansion and centralization. Switzerland began in 1291 as a confederation of three independent cantonal states. By 1848 it was a single (federal) state with some two dozen cantonal provinces." (Hoppe, 2001, p. 106-7)

It is also clear that these regional agreements embody much more than discriminatory trade-barrier reduction as it is common to represent them in the literature, whether in explicit tariff form or in the form of ad valorem equivalents. Factor mobility as well as goods mobility is involved to some degree in more agreements. Moves toward harmonized regulatory arrangements are at issue in financial services, transportation, and other service sectors. And in moving ahead of the GATT/WTO into such areas as environment and labor standards, agreements such as NAFTA have moved into areas where there is an explicit linkage drawn between trade and nontrade objectives, with trade policy potentially becoming the policeman to be used to achieve nontrade objectives. (Whalley, 1998, p. 69-70)

As indicated in the quote above, the empirical literature confirms the broader scope of regional trade agreements and their systemic orientation toward encompassing under supranational supervision and regulation ever broader areas. In other words, RTAs are a move in the direction of political centralization.

The distinguishing feature of RTAs that we are going to build upon is represented by what may be called *political integration*, or political centralization, and what other authors have referred to as “positive integration” (Tinbergen, 1965; Pinder, 1968). Our main goal is to de-homogenize political integration from *economic integration*, a concept that encompasses the purely economic aspects of liberalizing trade and the free movement of capital and labor. Our analysis does not intend to deny the existence of political integration, nor the fact that the use of the political means has always played a role in determining, i.e. influencing, the degree of economic integration. However, what this paper is going to realize is a more fundamental analysis, one that starts from the actual originating factors of both economic and political

integration. It is due to the voluntary respectively the coercive nature of each one of the two processes that we will study the first under the aegis of economic science, while the latter under that of the praxeological theory of politics.

With this scope in mind, the first section of this paper is going to briefly outline how the relationship between economic and political integration is generally presented. Because the literature that analyzes all forms of regional economic integration, including RTAs, is permeated by the idea that the notion of economic integration “refers both to the integration of the markets and political integration (integration of the economic policies)” (Pelkmans, 2006, p. 6) and that the “more ambitious forms of economic integration... require an appropriate combination of positive and negative integration” (p.7), our first task will be to provide an explanation for this inherently interdependent approach.

The following three sections will be centered on restoring economic integration under the aegis of economic science. We will argue that the essence of economic integration is to be found in the extension and intensification of the division of labor, a process that originates in the voluntary interaction of individuals. Also, we are going to argue that there is no scientific method of determining the optimum level of economic integration or if an individual occupies his adequate place in the division of labor. All we can infer from a theoretical perspective is that: at all times, in an unhampered market, all entrepreneurial projects, from all regions, are going to push specialization, and, therefore, economic integration to their praxeologically relevant limits.

By taking this praxeologically relevant standard as objective benchmark, we will build upon it and upon Hülsmann’s (2003; 2004) property economics approach. We will argue that any attempt of altering the pure market phenomenon of economic integration must be based on arbitrary standards and on the use of the political means (Oppenheimer, 1922). The pure economic

consequences that follow such attempts can be determined in light of the more general counterfactual approach employed in the study of interventionism, a field of economic science. Therefore, in analyzing regional economic integration, we do not need a special theory that bundles together both economic and political integration. In light of our fundamental analysis, we will argue that the two processes are actually two distinct phenomena, and that political integration can come only at the expense of economic integration.

In the last section of this paper, we shall approach the topic of political integration from the perspective of political action (Apăvăloaei, 2015a). Political integration is going to be presented as the product of international political cooperation between policymakers that rule over different jurisdictions. When confronted with international political competition, policymakers are faced with three broad options: conflict (war making), unilateral action, or cooperation.

The first option makes the subject of a distinct field of praxeology: the praxeological theory of conflict and war (Mises, 2006; Salerno, 2008) and will not be analyzed in the following. The second and third options, i.e. unilateral action and cooperation, are going to be analyzed in light of the counterfactual analysis of interventionism, and of the resulting moral hazard that stems from the use of the political means (Oppenheimer, 1922; Hülsmann, 2004). Economic resources will tend to leave countries that are relatively more regulated and taxed, and flow toward freer territories. Therefore, in the logic of political action, if policymakers aim to ingress in the working of the free market, and at the same time limit the hemorrhage of economic resources, they will have the economic incentives to coordinate and collaborate with their peers from other territories so as to limit the effect of international political competition.

Political integration is only a means toward this end. It implies ceding political prerogatives in favor of supranational

institutions in order to enable more political action. The coordination and harmonization of interventionist measures alleviate the external limit imposed by international political competition by limiting the possibility of private property owners to direct their resources toward less regulated territories (vote with one's feet) or to put pressure on policymakers to adopt a less interventionist stance, similar to that practiced in other territories (yardstick competition). *Ergo*, any means that enables more political action, namely supranational institution building, can come only at the expense of private property owners, and therefore undermines economic integration (the division of labor).

TWO APPROACHES TO ECONOMIC AND POLITICAL INTEGRATION

As emphasized in the introductory section above, regional economic integration is considered as encompassing two components: economic integration and political integration².

² The terminology most frequently encountered in the mainstream literature is the one initially introduced by Tinbergen (1965). The classical distinction is between negative and positive integration, the former being the elimination of institutions (restrictions), the latter the establishment of institutions. In Tinbergen's terms, "economic integration" is achieved only if countries centralize at "supranational level" numerous "instruments of economic policy" (p. 67). Although we will refer to the same phenomena, the terminology that is going to be used in this paper will follow Hoppe (1997) and Hülsmann (1997), by distinguishing between economic integration and political integration. The reason behind this choice is twofold. First, positive versus negative integration can be interpreted as having an implicit value judgement when it comes to the choice of terms, viz. positive might suggest that the phenomena it designates is *ipso facto* good or desirable. Although this does not apply to the objective reasoning that can be found in scientific texts, scholars should prudently take into account their choice in terms, especially in light of the historic experience of liberalism and the misinterpretation in common speech of its negative program. A similar problem is identified by Mises (2002) when talking about liberalism:

These two processes are presented as being in a relationship of interdependency due to two broad reasons.

The first reason is what we may call “the self-evident empirical case”, and is based on the actual historical experience related to regional integration. Because regional economic integration would not have progressed without political will, and because market expansion and liberalization are not sufficient for the actual functioning of even the lowest stages of regional integration, the role of political integration simply cannot be denied.

While Balassa (1961) identifies five stages of economic integration, out of which only the last two, Economic Union (EU) and Total Economic Integration (TEI), actually require policies for harmonization and unification, Pelkmans (2006) argues that even the first three stages cannot be separated from political integration. Although Free Trade Areas (FTAs) and Customs Unions (CUs) are usually defined as not requiring any element of positive integration, such an approach “deprives these notions of practical

Liberalism has sometimes been reproached on the ground that its program is predominantly negative. This follows necessarily, it is asserted, from the very nature of freedom, which can be conceived only as freedom from something, for the demand for freedom consists essentially in the rejection of some sort of claim. On the other hand, it is thought, the program of the authoritarian parties is positive. Since a very definite value judgment is generally connoted by the terms “negative” and “positive,” this way of speaking already involves a surreptitious attempt to discredit the political program of liberalism. (Mises, 2002, p.136)

Second, the distinction between economic and political integration builds upon Oppenheimer’s (1922) dichotomy - economic versus political means, which was later developed by Hülsmann (2004) into a scientific approach to the analysis of coercive ingression upon the market order (what the author calls the “property economics”). As it is going to be explained below, the different nature of the two concepts related to regional integration can be grasped precisely because economic integration is a purely economic (voluntary) phenomena, while political integration is based on the use of coercion.

applicability” (Pelkmans, 2006, p.8). The drawback seems to be less severe in the case of FTAs, although recent examples of such agreements “among developed countries go further in product scope (for example including some aspects of services) and in approximation of certain forms of economic regulation”. Moving on to CUs, “the absence of positive integration is simply misleading” because “[i]n practice, many more elements of trade policy will be under pressure to be approximated, made compatible or transferred to common intuitions. So, positive integration is already of some importance in a tariff union.” When it comes to the Common Market (CM) phase, “[taking] Balassa literally, the CM would imply neither approximation of national economic regulation nor any harmonization of direct or indirect taxation, let alone any transfer of tax powers, or for instance, Union competences for a common competition policy.” In this case, “an adapted definition should be used to prevent misunderstandings: ‘a common market attains the free movement of products, services and factors of production accompanied by the necessary positive integration for the common market to function properly’.”

When it comes to synthesizing the relationship between economic and political integration Pelkmans (2006) states:

In a fantasy world without national governments or ‘nation states’, economic integration would boil down to pure market integration – presumably apolitical. In the real world, economic integration is always to some extent political. When modest ambitions prevail, the politics of economic integration will remain largely domestic, apart from coalition formation and negotiation of the classical intergovernmental type. Higher ambitions of economic integration tend to be accommodated by, or to result from, political integration processes. (Pelkmans, 2006, p.3)

Besides the actual historical experience from which it extrapolates, “the self-evident empirical case” also has an implicit theoretical background that underlies this interpretation of the historical process. This line of argumentation is based on the neoclassical approach to economics, and therefore starts from perfect competition and market failure assumptions³. Left on its own, economic integration simply cannot surpass the inherent limits of the market. These theoretical assumptions are confirmed by actual historical practice, as economic integration has always evolved in tandem with political integration in order to take advantage of the benefits that are made possible by political

³ In this vein, Pelkmans (1980, p.334) characterizes the context in which regional economic integration actually occurs in the following way:

“The European Communities attempt to integrate developed economies of a mixed, capitalist variety. Such economies are characterized by a predominance of private ownership of the means of production over public ownership and by allocation of considerable economic decision-making power to the government complementing or superseding that of private economic agents [...] Of course, private and public ownership may lead to much the same performance if publicly owned firms are forced to compete under independent management. One may also argue that the crucial position of management (or Galbraith’s ‘technostructure’) in private firms replaces the ownership as the determining factor. One may even go so far as to imply that today’s big, usually multinational, enterprises behave very differently from what is expected in competitive markets: internally, they cultivate planning in R&D, stocks, production, manpower and long term investment, while securing external oligopolies in the markets through product differentiation, heavy advertising and tacit or explicit collusion. Also, competition in labor markets has become oligopolistic and is further distorted by great many barriers to entry ranging from diplomas and age to fairly automatic eligibilities for career positions within large (private or public) bureaucracies and labor union membership. These elements, and several more, substantiate the relevant point that Western developed economies have drifted rather far away from *laissez-faire*” (Pelkmans, 1980, p. 334)

harmonization and institution building. A clear separation of the two processes, as if they form a dichotomy, represents only a transposition of actual negotiation practices to the field of theory. Such an artificial separation, it is claimed, can only distort our understanding of the actual phenomena.

The first three stages [of regional integration, as they are presented in sequence by Balassa] (the FTA, CU and CM) seem to refer to classical *laissez-faire* economies where member governments initially do not intervene in markets except at their frontiers but have agreed to break down gradually these ultimate distortions as well, so as to obtain a truly free market over a large economic space. The last two stages (EU and TEI), on the other hand, suddenly deal with policies that hitherto were considered a non-existent, and harmonize or unify them. In brief, the first three stages are steps of *pure market integration*, while the last two stages constitute pure forms of *policy integration*. Though there is surely merit in distinguishing the concepts of market and policy integration, the sharp separation of the two is inconsistent with the nature of the mixed economic order. I label this separation of market and policy integration the “*dichotomy of economic integration theory*”. The dichotomy finds its origin in the discussion about economic integration during the 1950s. While the ‘liberalists’ and ‘dirigists’ agreed about the desirability of removing governmental border intervention, they differed sharply about the necessity of creating common policies. In the constitutional negotiations about the European Communities, therefore, the understandable tendency has been to emphasize the points of agreement [...] The dichotomy of economic integration theory is the

counterpart of the separation of negative and positive integration in practice. (Pelkmans, 1980, p. 334-35, emphasis in the original)

The second reason that is invoked when it comes to the inherent interdependency between economic and political integration is what we may call “the explicit political scope of regional integration”. This approach is also based on the neoclassical framework, and therefore on market failure and the need of government intervention for welfare maximization, but its emphasis falls on what is considered the very starting point of regional integration. According to this approach, regional integration stems precisely from the policymakers’ intention to play a role in fine-tuning the economy. Because pure liberalization has its benefits, but cannot function on its own in a proper manner, national governments have adopted a specific policy response: combining economic (negative) integration with political (positive) integration in order to obtain a welfare optimal outcome.

This approach is explicitly adopted by Tinbergen (1965) when he states that:

After having thus indicated the possibilities to regulate them [international economic relations], we shall now discuss how far we want to regulate them. Such regulation, when aimed at more systematically, is nowadays usually called ‘*integration*’ of the various national economies. Integration may be said to be the creation of the most desirable structure of international economy, removing artificial hindrances to the optimal operation and introducing deliberately all desirable elements of co-ordination or unification. The problem of integration therefore forms part of a more general problem, namely that of the *optimum economic policy*. When making recommendations on economic policy we

are actually leaving the territory of objective science or at least introducing outside elements. Since a good deal of economic analysis will have to be used nevertheless we will warn the reader every time such extra-economic elements are being used. (Tinbergen, 1965, p. 95, emphasis in the original)

The same “explicit political scope of regional integration” is employed by Pinder (1968):

I will therefore define economic integration as both the removal of discrimination as between the economic agents of the member countries, and the formation and application of co-ordinated and common policies on a sufficient scale to ensure that major economic and welfare objectives are fulfilled. It follows that economic union is a state in which discrimination has been largely removed, and co-ordinated and common policies have been, and are being, applied on a sufficient scale [...] I will use two terms that have been used by Tinbergen, although again it seems necessary to change his definitions so as to make the terms as useful as possible, in the light of the experience of the Community as it has evolved. The terms are negative integration and positive integration, and I will use negative integration for that part of economic integration that consists of the removal of discrimination, and positive integration as the formation and application of co-ordinated and common policies in order to fulfil economic and welfare objectives other than the removal of discrimination. (Pinder, 1968, p. 90)

Both of these two broad reasons – “the self-evident empirical case” and “the explicit political scope of regional integration” – consider political integration as an originating factor of regional economic integration. Just by focusing on economic integration

alone would not allow us to grasp regional economic integration from a historically accurate perspective, nor would it account for the (theoretically) optimal solution recommended in accordance with neoclassical economic theory. Economic and political integration are therefore, according to these two approaches, a unitary bundle, each element being in a relation of interdependency with the other.

In the following we will analyze each of these two processes strictly from a theoretical perspective. We will put aside the historical experience of regional economic integration and any normative policy recommendation pertaining to it, in favor of a praxeological analysis of its two components. The approach will apply purely deductive and causal-realist reasoning in order to identify the most general aspects, i.e. invariable in time and space, of economic and political integration. By pursuing this distinct approach, we will show that economic and political integration are actually two independent phenomena that are at odds with each other.

Before delving into this de-homogenizing attempt, one further clarification has to be made. Our line of reasoning does not deny the fact that political integration does determine/influence the specific level of economic integration. What we will try to emphasize is that the two processes are of different nature. The question we are going to address is “From where do economic and political integration originate?” as opposed to the question: “What determines the level of economic integration?”⁴. In the following,

⁴ A similar point is made by Böhm-Bawerk when explaining the difference between the existence of interest and the rate of interest:

All interest-originating causes undoubtedly are also determining factors for the actual rate. But not all rate-determining factors are also interest-creating causes ... When we inquire into the causes of a flood we certainly cannot cite the dams and reservoirs built to prevent or at least mitigate inundations. But they are a determining factor for the actual watermark of the flood ... Similarly, there are other

we are going to show that economic integration can be analyzed only in light of the more general theory of interventionism. Therefore, political ingression in the workings of the free market will have a role in determining the actual level of economic integration, but the fact remains that political and economic integration are two distinct phenomena. The first can trace its origin to voluntary interaction, while the latter is just a specific form of coercive interaction that takes place under the auspices of international political cooperation. While political integration plays a role in determining the extent of economic integration, it cannot explain its essence. Only by taking into account this fundamental difference can we avoid extrapolating from historical practice (how regional economic integration has been developing) and operating with value judgements that are implicit in the neoclassical framework (perfect competition, market failure and the need for a harmonized policy response).

ECONOMIC INTEGRATION: A CONSEQUENCE OF THE DIVISION OF LABOR

When it comes to providing a definition of economic integration, Machlup acknowledges that the literature dedicated to analyzing the subject suffers “less from a lack of a definition than from an abundance of mutually contradictory definitions” (Machlup, 1975, p. 17). As indirectly alluded above, the most often used framework for the presentation of economic integration is the five consecutive stages approach proposed by Balassa (1961), where each stage is a combination of economic and political integration. In order to avoid falling back on this interdependent view, we will follow Machlup’s (1975) approach to economic integration. According to this author, the non-discrimination of

circumstances besides the actual interest-creating causes that bring about or enhance the value advantage of present goods over future goods. (Böhm-Bawerk, 1890, p. 192 as cited in Kirzenr, 1993, p. 183)

goods and of production factors in terms of their origin and their mobility are necessary but not sufficient elements for defining this phenomenon. The essence of economic integration is the division of labor.

Can we take division of labor as an essential part of the definition of economic integration? If we do, we carry out, I believe, the intentions of most, perhaps all, users of the term; I believe also that we thereby conform to the ideas of socialists as well as of free-enterprise economists. (Machlup, 1975, p. 24)

Understanding economic integration in light of the pure market phenomenon of the division of labor offers us two advantages. On the one hand, we are presented with the most general description of the phenomena, one that can be applied for any level of aggregation, starting from the cooperation and specialization that takes place between two individuals, to ever more extended markets. Therefore, this approach is not preoccupied only with the integration process that takes place between particular sectors, between national economies, or any policy relevant level of aggregation, but can be applied to all forms of human interaction, at all conceivable levels. Second, this definition takes into consideration only voluntary interaction between individuals. This allows us to sever any link to political integration, and analyze this phenomenon on the basis of the objective benchmark represented by the unhampered market economy (Hülsmann, 2004; Apăvăloaei, 2015b).

Taking into consideration the above mentioned approach, what can one say about the degree/extent of economic integration?

From a neoclassical perspective, the answer to this question centers around the increase of actual and potential competition that results from the elimination of all “economic frontiers”.

Economic integration is defined as the elimination of economic frontiers between two or more economies. In turn, an economic frontier is any demarcation over which actual and potential motilities of goods, services and production factors, as well as communication flows, are relatively low [...] European economic integration is driven by efforts to reduce or eliminate the public role of territorial frontiers. But, as the definition implies, this is a necessary, not sufficient condition for economic integration. Demarcations within and between national economies may remain, perhaps as a result of natural barriers (for example mountains, sea) the costs of which have not been sufficiently reduced by infrastructural and transport provisions, or perhaps as a result of great disparities in the level of development, or perhaps as a result of business collusion in a region or country. Even discrepancies in the availability, speed and quality of information might serve as an economic frontier. (Pelkmans, 2006, p. 2-3)

Therefore, according to the quote above, an economic frontier is any hindrance that makes reality different from the theoretical assumptions of perfect competition. The potential extent of economic integration is therefore never reached, and, as argued in the above section, this requires active political integration.

In addressing the same question pertaining to the extent of economic integration, even Machlup departs from the causal-realist approach that was promoted by Mises, his doctoral advisor and lifelong acquaintance. Machlup's approach to this issue takes into consideration what he calls "complete economic integration" a

concept developed in the spirit of the general Walrasian equilibrium⁵.

I submit that the idea of complete integration implies the actual utilization of all potential opportunities of efficient division of labor [...] General economic integration of the economies under consideration does not refer to particular industries or sectors, nor to particular factors or products, intermediate or final, but rather to the *entirety of economic activities* of the region (country, bloc, or world). It is an integration of all

⁵ Machlup was a participant at the so-called Mises *Privatseminar*, starting from the early twenties (Machlup, 1980). The relationship between the two Austrian economists continued even during their years spent in the USA, after the Second World War, but the relationship was a tense one. Machlup rejected Mises's a priori methodology, but he accepted the deductive nature of economic science. During his university studies in Vienna, Machlup fell under the influence of Wiser and Schumpeter, adopting from them the general equilibrium approach (Salerno, 1999). Despite the Walrasian elements identified in the main body of the text, Machlup does not use them in a purely neoclassical spirit. For example, location does play a role when it comes to valuing goods. Also, the factors of production will always be characterized by differences in productivity that are inherent in their geographical positioning, and the structure of production cannot simply be translated between territories. These elements bring Machlup close to Mises's purchasing power parity theory, viz. two physically and chemically identical goods do not necessarily command an equal in price. Another element that can be considered Misesian in spirit is Machlup's understanding of the attempts at quantifying the level of economic integration.

There are philosophers' dicta to the effect that a concept ought to be subject to *operational definitions* and that propositions employing the concept ought to be subject to *operational testing*. I am inclined to disregard these dicta as neopositivistic prejudice, and to reject the still more extreme position which denies that anything that empirical operations can give meaning to concepts and to propositions involving the. Thus I insist that the concept of a degree of economic integration has meaning even if we do not know how to measure it. (Machlup, 1975, p. 35, emphasis in the original)

productive resources available anywhere in the region for the production of all the many goods and services demanded under actually of potentially realized conditions. It is constituted by a complete interweaving and interdependence of *all* economic sectors, industries, branches, and any activities whatsoever, in the closest possible approximation to the theoretical model of general equilibrium in a system with unrestricted mobility of all movable factors and products, intermediate and finished. (Machlup, 1975, p. 24, emphasis in the original)

The definition of “complete economic integration” in terms of the general equilibrium viz. the actual use of all the potential opportunities, amounts to a questionable and irrelevant standard, at least for any attempt of explaining market phenomena as they actually are. First of all, it eliminates *ex hypothesi* the possibility of human error or of any regret, although such consequences may occur under the auspices of ever changing individual needs and priorities (Rothbard, 2011). Second, since it represents an ever elusive standard, that has no link with real economic phenomena, it opens a back door to “market failure” arguments.

Therefore, the question still remains: can we, *qua economists*, say anything about the degree/extent of economic integration? We will address this question by first looking at the case of a single individual. We will analyze how each economic actor comes to occupy a specific position in the division of labor, and what can be said about the extent of economic integration in the case of a single actor. Then, based on these insights, we will analyze economic integration at a more aggregate level, like in the case of two regions or countries.

THE DIVISION OF LABOR AND ECONOMIC INTEGRATION: *QUO VADIS?*

The essence of economic integration is the division of labor. Therefore, any step taken in the direction of the expansion and intensification of the division of labor is a step toward a higher degree of economic integration.

In other words, economic integration is the logical outcome that stems from the Ricardian law of association (Mises, 2008a). This economic law, more widely known as the law of comparative advantage, demonstrates that individuals become more productive (the available output will be higher, given the same effort is put into producing it), if they choose to engage in cooperation, specialization and exchange. As the number of individuals that engage in the division of labor grows, i.e. as the market becomes more extensive, the level of specialization also increases. If greater numbers of individuals participate in the market process, each actor is going to be presented with greater opportunities for exchange: a greater abundance and diversity of goods becomes available; the uncertainty level associated with the change in tastes is easier to tackle as the number of potential buyers increases; exchange-value becomes the prime mover in production decisions (Rothbard, 2009). As the extent of the market grows, we can witness the emergence of a self-fueling phenomenon, a virtuous circle of the division of labor, and therefore a move toward an ever deepening economic integration.

If the division of labor makes possible a larger and more diversified output of goods and services, which in turn offers the incentives for an increase in specialization, and therefore toward ever greater levels of productivity and output, are we in any position to say anything about the endpoint of this self reinforcing process? In order to address this question, we must expound the characteristics of comparative advantage.

According to Topan (2013, p. 164-8), when using the concept of comparative advantage, we must take into account three characteristics: its dynamic character, its entrepreneurial character, and finally, its marginalist character.

Comparative advantage has a dynamic character in the sense that it changes/evolves over time. If two individuals are stranded on an island, and one has a comparative advantage in berry picking, while the other has a comparative advantage in hunting, this does not mean that the two individuals will remain engaged in these two activities forever. A change in the taste for berries might occur, thus forcing the individual who specializes in berry picking to find another activity where he holds a comparative advantage (he might engage in a new activity, e.g. gathering fire wood, or he might decide to engage in hunting, while the other individual finds a new area of expertise). Another scenario could involve a third individual who joins the initial inhabitants of the island. Because the new member of the island-economy is even more efficient in picking berries than both initial inhabitants, the two will have to find new production activities to specialize in. Therefore, comparative advantage is not a static theory, but the individuals employing it must take into consideration its ever changing character in order to be able to employ it in better understanding real economic phenomena.

The entrepreneurial character means that comparative advantage cannot be determined through theoretical (scientific) reasoning, but only through entrepreneurial (subjective) judgement regarding the anticipated needs of consumers. In an economy that has moved beyond a primitive stage of production, comparative advantage can be operationalized only through monetary calculation: the profit and loss test ultimately informs the entrepreneur if his specialization decision was in accordance with his comparative advantage. The subjective entrepreneurial character of comparative advantage also refers to the production process itself, in light of which the entrepreneur must answer

questions such as: What combination of heterogeneous factors of production is relevant for each particular entrepreneurial project? In how many separate processes should production be split in order to obtain the highest productivity? What is the relevant market that should be taken into consideration when estimating the opportunity cost involved in the make or buy decision? In trying to answer these questions, the entrepreneur elaborates judgments on how to best allocate his resources, or, simply put, in what kind of production process should he specialize in⁶. Therefore, production and its corollary, specialization, are not abstract notions for the entrepreneur, but the praxeologically relevant answers he seeks. These answers are discoverable only in the market, through monetary calculation.

The third characteristic of comparative advantage is its marginalist character. This refers to the relevant level of detail entrepreneurs take into consideration when deciding what goods and services should be produced. The ultimate reference point for all entrepreneurial decisions is the consumer. The entrepreneur that best addresses the most stringent needs of the consumers is going to earn the greatest amount of profit. Therefore, the relevant level of differentiation between products is going to be assumed by entrepreneurs in accordance with what they anticipate/judge that consumers take into account when formulating their buying decisions. For example, when going to the market, the individual does not buy an abstract bundle of vegetables, nor does he decide what tomato seller to patronize by inquiring each of them in

⁶ Ultimately, the decision to occupy any position within the division of labor is an entrepreneurial decision, in the most general use of the term. It applies to all human action, in the sense that all human action has an implicit entrepreneurial element. By its very nature the decision is subjective and implies tackling uncertainty. It supposes specialization in the activity that entails the lowest opportunity cost for each individual, i.e. the field where the individual estimates to be the least inefficient, or otherwise the field where he estimates to be the most efficient. Even the decision of one becoming an employee is an entrepreneurial act.

matters concerning the exact molecular structure of their product. From this example we can infer that consumers are interested in the praxeologically relevant level of detail when it comes to making a buying decision. In their turn, entrepreneurs are going to take into consideration only what the consumer considers to be relevant when deciding what to produce and how to differentiate his offer. If an entrepreneur is not willing to differentiate between various kinds of vegetables, e.g. tomatoes and potatoes, or red tomatoes and yellow tomatoes, or if he enters into irrelevant details when promoting his products, he is going to be penalized by consumers, who are going to buy from his competitors. Therefore, comparative advantage does not refer to an abstract category of goods and services, but to praxeologically relevant goods and services, i.e. products that have certain characteristics that are relevant to the consumer.

After making explicit the characteristics of comparative advantage, we can now attempt to answer the question pertaining to the endpoint of the economic integration process as it applies in the case of a single actor. As mentioned above, economic integration is influenced by a virtuous circle that implies specialization, increase and differentiation of output, which in its turn offers the economic incentives for more specialization. From the entrepreneurial and marginal characteristics of comparative advantage we can now infer that the division of labor is going to advance up to the point where the entrepreneurial production process and consumer differentiation reach their praxeologically relevant limit. Let us illustrate this by building upon an example that is provided by Costea (2005, p. 165-6), when discussing the lower bound size of the firm.

For instance, should we expect the division of labor to evolve until it reaches a point where a number of entrepreneurs will specialize in producing sleeveless shirts in order to sell them on the market to entrepreneurs that are specialized in attaching sleeves to the body of the shirt? Taking the same line of reasoning

a step further, are we to expect that what now constitutes “assembled” shirts (body and sleeves) are going to be sold to entrepreneurs that specialize in sewing only the top three buttons, and then to entrepreneurs that are the most efficient in sewing the last two buttons, thus obtaining a “completed” final product?

One may argue that such a high degree of specialization is not likely to appear in the case of separate entities that buy and sell on the market. This might be explained in light of either one of the two characteristics of comparative advantage. On the one hand, the marginalist characteristic informs us that there is no market for sleeveless shirts because consumers are not interested in such a level of detail. Consumers are not interested in acquiring the body of the shirt from a particular producer, and the sleeves from another. The relevant level of detail the consumer takes into consideration is the one pertaining to his need for a completed shirt. Therefore, we may say that there is no demand in final consumption for separate shirt parts. On the other hand, in accordance with the entrepreneurial characteristic, it might prove more profitable to incorporate all these stages in one single production process. Such a degree of specialization is more likely to appear in the case of a single, integrated entrepreneurial project, like a firm. Without attempting to go into any detail concerning the theory of the firm, we will only mention that even in this case, the degree of specialization faces a limit. This limit becomes visible in terms of profit and loss, and is continually tested and discovered through entrepreneurial estimations of what is the most productive and profitable method of organizing production. Some entrepreneurs will choose to organize production in such a manner as to have one employee sew the top three buttons, while a second employee will be delegated the responsibility of specializing only in sewing the two bottom buttons. Another entrepreneur might estimate that such a detail of specialization is redundant, and will hire two individuals that will be in charge of sewing any type of button. A third entrepreneur might estimate

that having a single employee produce an entire (complete) shirt on his own, without any mechanization of the process, will allow him to promote his product as a handmade or traditional shirts. This is a different product that commands a different price. In the end, it all depends on what production method, i.e. entrepreneurial project, proves to be profitable; this will ultimately determine which entrepreneur holds the comparative advantage in producing shirts.

All three approaches are based on subjective entrepreneurial estimates. In neither one of these three cases are we in any position to say *a priori* which one is more productive, or which one represents the optimum level of the division of labor. Therefore, we cannot determine *ex cathedra* what product is preferred by the consumer, what is the optimum or maximum level of the division of labor, or when economic integration has finally reached its endpoint. From this we can infer that economic integration is a concept that cannot be attributed a rigorous praxeological definition. The same argument can be brought forward for other concepts such as: money, complex production structure, company, state. These terms are indispensable in any theoretical endeavor, but their operationalization calls for thymological understanding⁷. The same applies to the division of labor and to economic integration. Because they can be determined only through entrepreneurial understanding, or can be assessed only *ex post*, through historical understanding, both these concepts cannot be subjected to any *a priori*, scientific assessment.

From a theoretical perspective, we understand that economic integration has an endpoint, but that limit is visible only to the eye

⁷ A treatise on the history of money requires the historian to make an assessment when deciding on the minimal criteria for an item of merchandise to be considered “a generally accepted item of exchange”. For a brief presentation of the historical method, and the necessary “understanding” of the historian, see (Salerno, 2005).

of the entrepreneur⁸. As the system of profit and loss tends to direct resources in the hands of the most capable entrepreneurs, while eliminating the entrepreneurial projects that prove to be erroneous (Mises, 2008b), the same logic applies to the case of the division of labor. The same system will tend to ensure that each individual occupies a place in the division of labor in accordance with his comparative advantage; at the same time, the entrepreneurial class will push the extent of economic integration to its highest, praxeologically relevant limit, in accordance with consumer preferences and entrepreneurial (calculated) estimates.

This applies to all instances of human interaction. The law of comparative advantage governs specialization and cooperation between individual situated in the same region, or in the case of those situated in different regions or countries (national economies). As Mises, 2008a) explain:

It has been asserted that Ricardo's law was valid only for his age and is of no avail for our time which offers other conditions. Ricardo saw the difference between domestic trade and foreign trade in differences in the mobility of capital and labor. If one assumes that capital, labor, and products are movable, then there exists a difference between regional and interregional trade only as far as the cost of transportation comes into play. Then it is superfluous to develop a theory of

⁸ This statement does not exclude the possibility of elaborating historical judgments. For example, starting from the theoretical implications of the division of labor, viz. higher productivity and higher living standards, the historian can draw the conclusion that during the Industrial Revolution, the economy of England was characterized by a higher degree of economic integration than Wallachia. The backwardness of the latter's economy was in no way related to entrepreneurial estimates that more traditional production methods would command a higher price. The low productivity of the region was due to low capital accumulation.

international trade as distinguished from national trade.
(Mises, 2008a, p.163)

Therefore, the same system of profit and loss is going to ensure that entrepreneurial projects are started in the locations (regions) deemed most suitable, while employing the combination of factors (from the region or imported from another) that is considered the most productive and profitable, with the scope of producing the output that has the characteristics deemed important by the consumers of that respective goods.

Turning now to a more aggregate level, what can we deduce about the degree of economic integration in the case of two regions? It is never the case that two regions exchange goods, services, or factors of production between them. Inter-regional or inter-national trade and employment of factors of production are only instances of voluntary exchange between individuals (Hudgings, 1997). Therefore, an evaluation of economic integration between regions implies aggregating a number of entrepreneurial specialization and exchange decisions, and thus must take into account the limits of analyzing an economic phenomenon that has no praxeologically rigorous definition.

Analyzing sectoral, regional or international integration, implies aggregating more and more entrepreneurial projects. In this context, the three characteristics of comparative advantage tend to fade into the background, and are replaced by more synthetic indicators. The only alternative to profit and loss calculations and consumer preferences are (government) statistics, i.e. historical data that is praxeologically irrelevant for the division of labor. As Rothbard (2011) explains:

The individual consumer, in his daily rounds, has little need of statistics; through advertising, through the information of friends, and through his own experience, he finds out what is going on in the markets around him.

The same is true of the business firm. The businessman must also size up his particular market, determine the prices he has to pay for what he buys and charge for what he sells, engage in cost accounting to estimate his costs, and so on. But none of this activity is really dependent upon the *omnium gatherum* of statistical facts about the economy ingested by the federal government. The businessman, like the consumer, knows and learns about his particular market through his daily experience. (Rothbard, 2011, p. 429, emphasis in the original)

Any attempt to measure, in an objective scientific sense, the degree of economic integration between two regions, by observing the value of inter-regional flows of merchandise and factors, falls prey to the fallacy *post hoc, ergo propter hoc*. Although the division of labor implies specialization, and therefore cooperation and exchange, it does not mean that at all time and in all instances the volume of inter-individual exchanges is going to grow or remain constant. What is produced and in what quantities depends on ever changing consumer preferences and entrepreneurial estimates pertaining to the most profitable allocation of resources. Increasing quantities of exchanged goods and their monetary expression, what statistical analysis can capture, are not necessary an indication of a consumer relevant division of labor⁹; nor are falling volumes the sign of un-entrepreneurial decisions made at the expense of the division of labor and economic integration¹⁰. For

⁹ For instance, the export orientated policies practiced in Romania during the '80s were not a sign that the country's division of labor was in any way connected to consumer preferences, nor that its economy was in any economic relevant sense integrated in the world economy. Its products were gradually eliminated by the goods provided by other competitive producers, while the local population was deprived of basic consumption goods and the capital structure of the economy was being overused and becoming obsolete.

¹⁰ If an individual speculates he can make a profit by keeping his grain off the market until demand is going to pickup in the future, we cannot say that the speculator is, in a praxeologically relevant sense, not participating in the division

instance, if the three shirt producers in our example above buy their cotton from producers that are located in another region, can we infer that any drop in the demand for cotton, as reflected in a lower quantity of imports, is necessarily a step in the direction of a lower degree of economic integration? Or is it just a manifestation of comparative advantage that is perfectly consistent with its three characteristics? A decrease in the quantity of cotton imported could indicate anything from change in consumer taste, to the bankruptcy of the less profitable entrepreneurial projects, or even a relocation of production facilities to the other region.

Statistics cannot be used for measuring economic integration, at least not in the sense that we can use a marked ruler for measuring the surface of a room. From a purely theoretical perspective (inter-regional) statistics can only confuse the problem. Although they seem to offer a possible way of sidestepping the changing, entrepreneurial and marginalist characteristics of comparative advantage, by reducing any issue to an easy to grasp indicator, such an approach can only provide past figures that are not praxeological relevant for the individuals that act in the market. Statistics remain important only for historical assessment, but cannot be used in a deductive science like economics.

If the economist cannot measure the degree of economic integration between two regions, what pronouncements can he make? As was the case of a single entrepreneurial project, we can engage in a qualitative analysis.

There is no scientific method of determining the optimum level of economic integration or if an individual occupies his adequate place in the division of labor. All we can infer from a theoretical perspective is that: at all times, in an unhampered

of labor. Also, if an individual prefers to cook in his leisure time, instead of patronizing a restaurant, it cannot be said that this individual relies on self consumption, and thus has a negative impact on the division of labor. The possibility of this individual to enjoy leisure means that he is already productive enough in the current position he occupies in the division of labor as to be able to enjoy a consumption good.

market, all entrepreneurial projects, from all regions, are going to push specialization, and, therefore, economic integration to their praxeologically relevant limits. In the aggregate, all entrepreneurial projects, from any number of regions, will tend toward the praxeologically relevant level of economic integration. These statements are *a priori* and independent of any kind of statistical measurement.

INTERVENTIONISM IN THE NAME OF ECONOMIC INTEGRATION, A COUNTERFACTUAL APPROACH

Thus far, we have analyzed economic integration only from the perspective of purely voluntary cooperation that is coordinated through the market process and monetary calculation. Operating under these assumptions, we have analyzed the process in relation to its logical endpoint, and argued that it applies to both intra-regional and inter-regional relations. Let us now proceed to the next step of our analysis and consider the effects of the use of coercion on economic integration. For this, we are going to build upon the counterfactual approach proposed by Hülsmann (2004; 2006) in what he has termed “property economics”.

Property economics is a qualitative, counterfactual analysis that can deduce the effects of violent ingression upon the workings of the unhampered market order. Hülsmann demonstrates that one can operate with concepts such as: self ownership, appropriation and exchange of resources, without introducing any normative element in the analysis. Furthermore, because the voluntary market order is Pareto optimal (Herbener, 2009; Rothbard, 2011), and it can be conceptualized without making precise assumptions (Long, 2006), the unhampered market becomes an objective benchmark for counterfactual deductions.

Property economics is not a tool for the normative definition of property rights, and it does not rely on equilibrium modeling to analyze the impact of the positive law on the workings of a market economy. Rather, it is a comparative analysis of two mutually excluding types of appropriation. It compares the effects that when appropriation takes place with the consent of the present owner to the effects that result if appropriation takes place without the present owner's consent. These relative effects are constant in time and space. They are thus a special class of economic laws, namely, counterfactual laws of appropriation. (Hülsmann, 2004, p. 41)

An individual can either appropriate a given good after its previous owner gave his consent, or he can appropriate it against that person's will (Oppenheimer, 1922). Both approaches have specific consequences, which can be deduced by applying them to the objective benchmark represented by the unhampered market order, or *laissez-faire* capitalism. Thus we obtain a special class of a priori laws that can be deduced by applying either the economic means or the political means to our benchmark. For example, we can deduce what happens to the growth rate of output per capita if social time preference decreases, or if the government decides to impose a new tax. In the first case, output will register a counterfactual tendency to increase, while in the latter, the counterfactual tendency will be toward a contraction of output. Both of these qualitative deductions have been made by applying a priori deductive reasoning in relation to the same benchmark.

The role of the entrepreneur in the free market order is to satisfy the most stringent needs of the consumer. Only by producing and supplying what the consumer wants, can an entrepreneur reap profit. Any interventionist measure seeks only to inject orders in the capitalist system so as to direct production

and consumption along lines that are different from those prescribed by the unhampered market (Mises, 2008a). This kind of measure, ultimately based on coercion, can only distort the profit and loss system, and push entrepreneurial action away from its main objective: catering to the needs of the consumer. Furthermore, any systematic ingression of the political means in the market order leads to moral hazard. As Hülsmann (2006) explains:

Interventionism does not abolish private property. The citizens still have ownership and control of their property, even though they have to share both ownership and control with the government and its agents. It is true that this forced co-ownership is usually a matter of degree. Increased interventionism increases the share of government control of resources, though without outlawing other people's simultaneous control of these same resources. But the forced nature of the co-ownership itself is not a matter of degree. It is a categorical and essential feature of any intervention, be it ever so small. (Hülsmann, 2006, p. 42)

It is due to the manifestation of moral hazard, i.e. the defense mechanism of the *de jure* owners of resources, that interventionist measures fail to reach their intended results. It is because private property owners understand that they cannot exclude government from its forced co-ownership claims, that they will try to elude any government measure. From a property economics perspective, this means that individuals will adopt other actions than the ones they would have counterfactually undertake on the free market, in the absence of coercion. For example, we can counterfactually deduce that an increase in the tax burden will lead to tax evasion and to a decrease in output, due to the fact that individuals are not willing to produce, save and invest to the same extent as they did before the increase in taxes.

In the previous section, we have already deduced that under the auspices of *laissez-faire* capitalism, the division of labor is going to enter a self reinforcing process that, if left to its own, will reach the praxeologically relevant level of economic integration, at both intra-regional and inter-regional levels. This result of the unhampered market order represents the objective benchmark from which we must start our counterfactual analysis of the effect of the political means¹¹ upon economic integration.

We saw that economic integration is not a praxeologically rigorous term that can make the subject of quantitative analysis. Also, we argued that the division of labor and economic integration are operational only from an entrepreneurial and historical approach, but this does not mean that these concepts are not meaningful from a theoretical perspective. By employing the property economics approach, we can make some *a priori* qualitative deductions concerning the counterfactual results that liberalization (of the economic means) or more interventionist measures (that introduce new political means) have on the division of labor and on the degree of economic integration.

¹¹ As mentioned above, the “political means” is a concept that was first presented by Franz Oppenheimer (1922). While the economic means represent the voluntary methods of acquiring property (appropriation, production, exchange, gift), the political means imply obtaining property through the use of coercion (theft, taxation, fraud). Political action, as defined in (Apăvăloaei, 2015a, p.91) implies one individual living off the efforts of another by extracting his resources. Although it is ultimately based on coercion, political action is a broader concept that takes into consideration both terms of the Oppenheimerian dichotomy. If a government lowers the tax rate in order to allow the tax base to increase, thus extracting a larger amount of resources in the future, such a decision should be understood in the logic of political action. In this section, we are interested only in purely economic aspects of economic integration, therefore we will restrict our analysis to the counterfactual effects of coercion upon the decisions of economic agents, and we will ignore any political entrepreneurial aspects of political action (see Apăvăloaei and Jora, 2014; Apăvăloaei, 2015c for an analysis of political entrepreneurship).

Political action can only impair the self reinforcing process that is set in by specialization, and can only push economic integration away from its endpoint. The division of labor has no economic relevant meaning if consumer wants are ignored. But the use of the political means entails precisely this: a counterfactually identifiable departure from the sovereignty of the consumer and from calculated entrepreneurial resource allocation decisions¹².

Both the degree of economic integration and its structure are going to be altered by any coercive order injected in the unhampered market. The resulting moral hazard that follows any interventionist measure is going to lead to fewer resources being allocated to production purposes and to the active search for higher and more profitable degrees of specialization, than in the counterfactual case of our benchmark. Also, new political avenues will become available for entrepreneurs to engage in, therefore affecting the structure of economic integration. Entrepreneurial activity will be deviated from strictly productive activities, to what Baumol (1990) calls unproductive and destructive entrepreneurship.

The same counterfactual results apply in the case of intra-regional, inter-regional, and inter-national exchanges. The law of

¹² Ebeling (2010) synthetically expresses the same idea, when presenting Mises's understanding of interventionism:

If the social function of the market system of competition and prices is to direct production into those avenues that continually tend to reflect the changing pattern of consumer demand and potentials for production, then interventionism by definition brings about resource allocations and price relationships inconsistent with the end. The social system of division of labor is prevented from being coordinated into those patterns in which each participant is guided to find the place that his comparative advantage suggest, would be his most highly valued use in serving the ends of others as the means by which he earns the income to demand those productions from others he desires for his own purposes. (Ebeling, 2010, p. 165)

comparative advantage, or the Ricardian law of association as Mises (2008a) calls it in his more general formulation, informs us that exchange and specialization within the borders of the national economy as well as on the international market are governed by the same rules. The elimination of political barriers in the way of the international flow of goods, services, capital and labor will inherently lead to the advancement of the division of labor and economic integration, respectively. Any political barriers that seek to insulate the consumers and producers inside these territories from more efficient producers can act only at the expense of the (international) division of labor and of praxeologically relevant economic integration. As Dorobăț and Topan (2015) explain in the case of international trade flows:

On the one hand, while the law of comparative advantage informs us that specialization is feasible and beneficial where a minimum diversity exists, the concrete pattern of this specialization cannot be ascertained outside the market nexus. Through the profit and loss system, consumers on the market are those who sanction the relevance and efficiency of entrepreneurial specialization decisions. On the other hand, this means international specialization and comparative advantage are not naturally given, as the neoclassical paradigm suggests, because they are contingent on the incessant change of consumer preferences. Nevertheless, if the international specialization pattern can only be determined and planned from within the market through entrepreneurial decision-making¹³, this implies that any

¹³ The same argument based on the expressiveness of the economic calculations is brought forward by Hoppe (1990). He asserts that a currency reaches its utmost economic potential when it turns into a means of exchange accepted worldwide. Economic reasons push individuals into the acceptance of a single currency, since it could mediate the largest number of exchanges and render economic calculations most relevant. Several currencies circulated in

modification from outside the market can be achieved only at the expense of an optimal allocation of resources. (Dorobăț and Topan, 2015, p. 12)

If the use of the political means can only deter economic integration, we can deduce counterfactually that the elimination of any political barrier that impedes entrepreneurial activity can only lead to a higher degree of economic integration. Any limitation of the political means will free up resources, making new entrepreneurial projects feasible. At the same time, the elimination of any restriction will make entrepreneurial calculations more significant, as profit is going to become the only factor that determines what is produced and through what means.

We saw that some authors analyze economic integration in light of perfect competition or of general equilibrium resource allocation. Judging from the insights of the counterfactual approach proposed here, we understand that any such standard is arbitrary. Furthermore, any attempt to bring the real economy closer to such a standard, can only be done through the use of political means and therefore can come only at the expense of the entrepreneurial market order. Although there is no denying that the use of the political means plays a role in determining the degree of economic integration, precisely because theory and actual (historical) practice have been permeated by such arbitrary standards, we can understand, in light of a purely economic analysis, that the actual originating factor of economic integration is voluntary cooperation on the unhampered market.

In analyzing economic integration, we do not need a special theory that bundles together both economic and political

parallel is tantamount to a “partial barter” situation. Therefore, specialization will become fully attuned to consumer needs only when all government restrictions, including currencies imposed through legal tender laws, will be eliminated. For an Austrian critique of theory of optimal monetary areas, see (Block, 1999).

integration. A simpler approach, one that is in accordance with Occam's razor and with the nature of the phenomenon under study, allows us to analyze economic integration as a purely economic phenomenon: the advancement of the division of labor until it reaches its praxeologically relevant limit. Furthermore, any attempt to alter this natural order involves the use of the political means, and therefore can be understood in light of the more general counterfactual approach employed in the study of interventionism.

While the originating factor of economic integration is voluntary cooperation, political integration, as the name suggests, falls under the scope of political action. The originating factor of this type of interaction is coercion. While the purely economic effects of the use of the political means can be deduced from the counterfactual approach sketched above, the nature of political action itself is different. Starting from the specific methods it employs: expropriation in order to enable one individual living on the efforts of the others, political action, and one of its concrete methods of manifestation, political integration, can make the object of a distinct analysis.

POLITICAL INTEGRATION

This section of the paper is going to analyze political integration from the perspective of political action (Apãvãloaei, 20015a). Political action is a purposeful human endeavor that employs coercion (specific means) with the aim of extracting resources.

A praxeological analysis of political action analyzes the logic behind an aggressor's (bandit or state) decision to extract resources from his victim, while minimizing the costs of dissent. Besides political action, another type of human interaction that results in a zero-sum outcome is war making (Salerno, 2008). This

second teleologically oriented human endeavor seeks to obtain victory over an opposing side, while the first seeks only to extract resources from their owners, who, in their turn, choose not to oppose the aggressors in open conflict.

In accordance with the Oppenheimerian dichotomy that we have employed in the previous section, political action implies the use of the political means. By its very nature, any form of political action originates from coercive interaction. Due to the fact that only something that was already in someone's property can be expropriated, political action must be, from both a logical and temporal perspective, analyzed in a relation of subsequence to action that is based on the economic means. From this last conclusion it follows that political action is circumscribed by an economic limit: expropriation can take place only as long as, and to the extent that new resources have been brought into existence.

Besides this objective, resource bound limit, political action is confronted with a second constraint. Aggressors must take into consideration the extent to which they can push their expropriation until they are faced with open opposition from their victims. This limit becomes more stringent as the number of aggressors must, in accordance with the law of comparative advantage, represent only a fraction of the number of their victims. This subjective ideological limit may become manifest at different rates of exploitation, depending on historical circumstances, particularly on the dominant ideas of the period. But the fact remains that this potential opposition is a permanent element that is taken into consideration by the aggressors. For instance, even under the extreme case of slavery, the victim still has the option of revolting. As Rothbard (2009) explains:

Under slavery, the master treats the slaves as he does his livestock, horses, and other animals, using them as factors of production to gratify his wants, and feeding, housing them, etc., just enough to enable them to

continue in the master's service. It is true that the slave agrees to this arrangement, but this agreement is the result of a choice between working for the master and injury through violence [...] Thus, slavery, or hegemony, is defined as a system in which one must labor under the orders of another under the threat of violence. Under hegemony, the man who does the obeying—the “slave,” “serf,” “ward,” or “subject”— makes only one choice among two alternatives: (1) to subject himself to the master or “dictator”; or (2) to revolt against the regime of violence by use of his own violence or by refusing to obey orders. If he chooses the first course, he submits himself to the hegemonic ruler, and all the other decisions and actions are made by that ruler. (Rothbard, 2009, p. 82-3)

All political action is necessarily faced with these two limits. Regardless of the starting assumptions used¹⁴, whose only purpose is to make the analysis more attuned to actual developments, the study of political action cannot abstract from the economic and ideological limits that circumscribe it.

After this brief outline of political action, we can now commence the analysis of political integration, which is nothing else than a subspecies of this more general form of human interaction. For this endeavor let us assume we have a number of sovereign political entities, each ruling over a given territory. Moreover, let us suppose that these political entities are characterized by a sufficient developed institutional capacity as to allow them to ingress systematically in the market order. In other words, we assume that all political entities taken into consideration engage in interventionist policies.

¹⁴ Any study of political action that seeks to contribute to a better understanding of reality has to avoid engaging in “mere mental gymnastics or logical pastime” by restricting its inquiry to analyzing the implications of “those conditions and presuppositions which are given in reality” (Mises 2008a, p. 65).

We saw that under the auspices of interventionism the state assumes by force the status of co-owner alongside the *de jure* owners of the resources that fall under the incidence of the policy measure. Under these conditions, moral hazard is going to become manifest, as the *de jure* owners try to elude the measures imposed on them. The existence of more than one sovereign political entity opens a totally new avenue for the manifestation of moral hazard: international political competition. The *de jure* owners can now attempt to evade, or at least limit, political expropriation by escaping to the territories that are ruled over by less intrusive political entities.

Like in the case of analyzing interventionism through counterfactual deductions, there is no need to resort to any kind of precise abstractions when studying international political competition. There is no need for assumptions such as: the individuals under analysis are characterized by a *homo economicus* behavior, that they ignore national values or that they are dominated by the neo-liberal ideology; or that the global economy is defined by economic forces that rendered the state helpless (state capture). International political competition is the logical outcome that comes from the tension between the economic and political means. Moreover, the analysis of the purely economic results that stem from this manifestation of moral hazard are consistent with the theory of interventionism. A counterfactual formulation of international political competition informs us that, when two regions are characterized by different expropriation rates, the region that is relatively freer will tend to attract more resources. This can come only at the expense of the other, more regulated region, but to the benefit of its *de jure* owner.

If resources tend to leave relatively more regulated territories, in favor of those characterized by a higher degree of economic freedom, it follows that more interventionist political entities are going to witness a hemorrhage of resources. Capital and labor are going to migrate toward other territories, a

manifestation of political competition also known as “voting with one’s feet” (Vaubel, 2008). This will cause losses of productivity, possible imbalances in the balance of payments (Salerno, 1982; 1992; 1994), and an overall shrinkage of the tax base, all in the detriment of the more interventionist governments.

Because different levels (and types) of political ingression bring about different results, both in terms of a lower output and of a lower rate of capital formation, their impact on the standard of living enjoyed by the population is going to differ from one territory to the other. In this context, the ideological limit is going to become more stringent, as the population can now make (international) comparisons between the economic results brought about by the political decisions pursued in other jurisdictions. Under the auspices of international political competition, that part of the population that did not leave for relatively economically freer territories can now put more pressure on policymakers by using other areas as a yardstick for their comparison (Vaubel, 2008).

Both the hemorrhaging of resources, or “voting with one’s feet”, and the increased social pressure brought about by “yardstick competition” constrain political action. International political competition forces policymakers to adopt a more moderate stance, at least in comparison to the counterfactual outcome that would have prevailed if only one political entity ruled over all the territories taken into consideration. From this we can infer the following praxeological deduction: under the auspices of international political competition, political action is going to reach at a faster rate the economic and ideological limits that circumscribe. Due to this acceleration in the manifestation of the two limits, we can consider that international political competition acts as a *de facto* third limit to political action. But, unlike the economic and ideological limits that ultimately stem from the nature of political action, the external limit represented by

international political competition can be pushed further, i.e. it can be made more flexible.

In the context of international political competition, all political entities have three political options they can choose from when it comes to interacting with each other: they can continue acting unilaterally, they can engage in conflict, or they can opt to cooperate.

If they continue acting on their own, the unilaterally adopted policy decisions will ultimately be arbitrated between by economic agents. This first option constitutes the same scenario as the one discussed above¹⁵.

Another option they could adopt is to eliminate international political competition through conquest. Because the logic of war making constitutes the subject of a different praxeological branch, we will not dwell upon this second option.

The third option policymakers can choose to adopt is international political cooperation. If policymakers are willing to give up some of the discretionary powers implied by unilateral political action in favor of a common powers approach, the stringencies that follow international political competition can be eliminated, or at least alleviated.

One form international political cooperation can take is political integration. This option supposes the creation of a new, supranational institution in favor of which the sovereign political entities cede part of their prerogatives. The ensuing political coordination and collaboration that follow the creation of a supranational political institution can only act as a restraint upon the *de jure* property owners' attempts to vote with their feet or to engage in yardstick comparisons¹⁶. This is not to say that we are

¹⁵ When acting unilaterally, political entities can opt for any type of policy, thus forming a continuum that stretches from a "night watchman" stance and unilateral liberalization, to socialism and autarky. Regardless of the policy option that ultimately prevails, policymakers still have to take into account the effects of international political competition.

trying to infer motive from result. Our argument is purely *a priori*, and states that: if political integration is pursued, the necessary results that follow it are going to limit the effects of international political competition.

As mentioned in the previous section, economic integration is a pure economic phenomenon that requires no more than the elimination of the political barriers that restrain the division of labor from reaching its praxeologically relevant highest degree. Any political ingression, even when conducted at supranational level, can only restrain economic integration. Therefore, if political integration does not naturally stem from voluntary cooperation, it must find its originating factor in coercion¹⁷. By interpreting

¹⁶ Political integration implies either the coordination of policy measures among different political entities so as to bring all the territories under a similar levels of expropriation, or political collaboration, when several political entities agree to impose, *en bloc* a higher level of expropriation. Some historical examples should further clarify this distinction. For instance, Vaubel (2009, p. 55-6) mentions that EU member countries agreed to coordinate in order to impose a minimum level for the Value Added Tax (VAT) imposed in all member states. Besides eliminating potential tax competition, the supranational agreed measure managed to raise the VAT's level in three countries, including Germany. This happened despite the fact that it was an unpopular measure in the German legislature. EU collaboration on higher environment standards and the push for additional measures to combat global warming represent good examples for the second category. Also, EU collaboration in organizing bailout schemes in the wake of the Great Recession can be mentioned here.

¹⁷ In a general overview of recent history, Hoppe (1993) gives the same interpretation, as the ones theoretically analyzed here, to actual events. Let us quote him at length:

It is assumed that larger political units-and ultimately a single world government-imply wider markets and hence increased wealth. As evidence of this, it is pointed out that economic. Prosperity has increased dramatically with increased centralization. However, rather than reflecting any truth, this orthodox view is more illustrative of the fact that history is typically written by its victors. Correlation or temporal coincidence does not prove causation. In fact, the

political integration in the light of the broader phenomenon of political cooperation, we may counterfactually state that in the absence of political integration, the scope of political action would have been narrower. Political integration comes precisely to impose a supranational architecture that enables political actions to become viable and effective, beyond the scope that would have prevailed under the circumstances of international political competition.

The praxeological analysis conducted here informs us of the consequences that necessarily follow political integration, but the actual decision whether or not to adopt such a path is a matter of individual choice. The theoretical analysis allows us to grasp the fact that political integration brings certain advantages for policymakers, which is tantamount to saying that policy makers have incentives to follow such a path. But incentives are not

relationship between economic prosperity and centralization is very different from—indeed, almost the opposite of—what orthodoxy alleges. Political integration (centralization) and economic (market) integration are two completely different phenomena. Political integration involves the territorial expansion of a government's power of taxation and property regulation (expropriation). Economic integration is the extension of the interpersonal and interregional division of labor and market participation. Progress results whenever a less taxing and regulating government expands its territory at the expense of a more expropriative one. If the reverse occurs, centralization implies economic disintegration and retrogression. (Hoppe, 1993, p. 24)

Another historical interpretation, this time pertaining to the early experience of European integration, is offered by Röpke (1959)

European economic integration was realized, at a time when Europe was not yet cut in pieces through systematic national exchange control and cognate measures of a collectivist trade policy, and had not yet been robbed, by the inconvertibility of currencies, of the multilateral character of economic relations. It was an integration which required no plans, no planners, no bureaucracy, no conferences, no customs' unions and no High Authorities. (Röpke, 1959, p. 226)

sufficient elements for explaining human action. At the end of the day, all political action is dictated by free will, and therefore by the ideas and errors that dominate the minds of policymakers¹⁸.

The benefits political integration confers upon policymakers have been presented and elaborated upon in order to explain the dynamics of this particular form of political cooperation. For example, Sennholz (1955) and Topan (2007) present political integration as a solution that policymakers can employ when national interventionist measures failing to achieve their intended results. By building upon Mises's theory of interventionism (Lavoie, 1982; Mises, 1998), both authors present political integration as a means of prolonging the life of this unworkable system through international interventionism. Another approach

¹⁸The paramount role of ideas on any political decision has been stressed repeatedly by Mises in both his theoretical and his historical works. A similar point, this time in direct relation with what we call political integration, can be found in a talk given by Mises as the Second World War was in full progress. Mises says that as long as the ideas that fueled interventionism and its corollary, economic nationalism, are not abandoned, various proposals of political integration simply cannot work. Although stated more than seven decades ago, Mises's insight proves its keenness in the midst of the current migrant crisis that has shackled the unity and the foundations of the European Union to the core.

The nations which have to form this union have to abandon essential features of their national sovereignty for the benefit of the super-national authority. They have to pool their foreign policies and their armed forces and they have to stop fighting one another in the economic field. They have to enter into a permanent customs union and monetary union. In short: they have to form a new federation [...] Now we are back where we started from. Not only is a world embracing commonwealth of nations incompatible with the preservation of economic nationalism but even a federal union among a smaller group of nations. What renders all schemes for a better post-war order futile is the present-day doctrine of government interference with business. In every country there are powerful pressure groups opposed to every infringement of their vested privileges. (Mises, 1990, p. 162-3)

is proposed by Hülsmann (1997), who presents the dynamics of political integration as stemming from the interest of policymakers to avoid state failure. When a state risks crumbling under the weight of interventionist measures (e.g. the business cycle), or when it is faced with the implosion its socialist economic system, it is in its interest, and in that of other states, to be saved. In order to avoid the potential risk of contagion, brought about by either one of these two situations, a other states are going to aid the failed state, but the bailout comes with obligations or implies outright absorption.

Without delving into any detail pertaining to the dynamics of political integration, it suffices to say that, in light of our praxeological analysis, both these theories practically provide us with potential incentives that can be taken into consideration by policymakers. Whether or not ever deeper forms of political integration are going to be pursued depends only on the choice of policymakers, who must decide if the benefits of international interventionism, or those of avoiding a state failure outweigh the costs of surrendering national prerogatives in favor of a supranational entity.

A pure theoretical approach cannot offer ultimate explanations for the reasons that drive policymakers or how these reasons are going to shape political integration. To pretend one can say otherwise is by all means determinism. A theory is no less valuable if we admit that the scope of its explanation is limited. On the contrary, one can argue that it is “more empirical” precisely because it admits to the existence of free will and consequently to the theory’s necessarily limited power of prediction. This is the reason why the praxeological theory of international political action is limited only to counterfactual assertions such as: Should policymakers choose to cooperate, then the objective and subjective limits that put pressure on political action will tend to be extended to higher, less stringent limits than under the circumstances of international political competition. It goes

without saying that this broad, but *a priori* true statement also applies to political integration, which is nothing but a form of international political cooperation. Furthermore, another *a priori* true assertion is that political integration is distinct, by its very nature, from economic integration, and that the first can only come at the expense of the latter.

CONCLUSION

In this paper, we have restored economic integration to the scope of economic science. We have shown that the essence of economic integration consists in the extension and intensification of the division of labor, a self reinforcing process that originates in the voluntary interaction between individuals.

In light of the three characteristics of comparative advantage – its dynamic character, its entrepreneurial character, and its marginalist character –, we argued that there is no scientific method of determining the optimum level of economic integration or if an individual occupies his adequate place in the division of labor. All we can infer from a theoretical perspective is that: at all times, in an unhampered market, all entrepreneurial projects, from all regions, are going to push specialization, and, therefore, economic integration to their praxeologically relevant limits.

The same conclusion applies in the aggregate, when we consider economic integration between regions (a region comprises all the entrepreneurial projects from that particular area). Any number of regions will tend toward the praxeologically relevant level of economic integration, as the same system of profit and loss is going to ensure that: entrepreneurial projects are undertaken in the locations that are deemed most suitable, while employing the combination of factors that is considered the most productive and profitable, with the scope of producing the output that has the characteristics deemed important by the consumers of that respective goods.

In light of Hülsmann's property economics approach, we argued that the unhampered market order represents the objective benchmark from which we must start our counterfactual analysis of the effect of the political means upon economic integration. Judging from the insights of the counterfactual approach, we concluded that any other standard that is used to analyze economic integration, like perfect competition or the general equilibrium, is arbitrary. Furthermore, any attempt to bring the real economy closer to such a standard, can only be done through the use of political means and therefore can come only at the expense of the entrepreneurial market order. Although the use of the political means plays a role in determining the degree of economic integration, in neoclassical theory and in actual (historical) practice, precisely because both have been founded on such arbitrary standards, we can understand, in light of a purely economic analysis, that the actual originating factor of economic integration is voluntary cooperation on the unhampered market.

Another aspect touched upon in this paper was the process of political integration. We have shown that such a form of political cooperation comes to limit and restrict the effects of economic liberalization, by adding institutional constraints at the supranational level. Because of this, we have deduced that political integration originates in coercion, and its effects can only undermine the phenomenon of economic integration.

From an *a priori* perspective, all we can say about political integration is that, in case policymakers decide to pursue it, it will postpone the moment when the limits of political actions are reached, but it will do so at the expense of the division of labor. Therefore, not only are political and economic integration, by their very nature, distinct phenomena, but the first can only come at the expense of the latter.

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