Anarchy, State and Public Choice
Advanced Studies in Political Economy

Series Editors: Virgil Henry Storr and Stefanie Haeffele

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Anarchy, State and Public Choice

Edited by
Edward Stringham

Foreword by
Peter J. Boettke and Rosolino A. Candela
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The development of Virginia Political Economy (VPE) throughout the 20th century played a crucial role in changing economists’ presumptions about the economic role of the state. Beginning in the 1950s and 1960s, economists in the VPE tradition first emphasized the various government failures that plague policy attempts to address the existence of market failures. As James M. Buchanan, Gordon Tullock, and others pointed out, special interest groups, short-sighted policy bias, and regulatory capture all may undermine the execution of policies intended to provide public goods, erode monopoly power, and eliminate externalities. Although imperfections in the market process may exist, VPE economists argued that government interventions to address such market failures will not necessarily be any better. Market failures, the government failure presumption suggests, may simply be failures to appreciate not only the costs of facilitating social order.

Anarchy, State and Public Choice marked a transition in VPE by taking the government failure presumption one step further to develop a presumption of anarchism in political economy, which claims that no solution exists to resolve the paradox of government, namely to empower and then constrain the state to a limited economic role of enforcing private property rights. Whereas economists of the VPE tradition share a presumption of government failure, Edward Stringham’s Anarchy, State and Public Choice provides contending perspectives regarding how optimistic or pessimistic political economists can be toward the presumption of anarchy in political economy. The publication of Anarchy, State and Public Choice marked a critical transition in the study of anarchy in the tradition of VPE, from a presumption of pessimistic anarchism to one of optimistic anarchism.

Originally published in 2005 by Edward Elgar, Anarchy, State and Public Choice revived interest in a previous generation of scholars who had provided an economic analysis of anarchy. Both generations of scholars shared a common research question: how can self-interested individuals establish norms and rules that foster the conditions for social cooperation under the division of labor? However, each generation arrived at different conclusions to that research question.
THE GENERATION OF PESSIMISTIC ANARCHISM

Inspired by the civil unrest during the Vietnam War and the civil rights movement (chapter 15, page 191), Buchanan, Tullock, and Winston Bush undertook a radical reexamination of alternative institutional arrangements for governing society at Virginia Polytechnic Institute and State University (then known as VPI) in Blacksburg. As Bush (chapter 2, page 10) put it, “It is not surprising that ‘anarchy’ and ‘anarchism’ have re-emerged as topics for discussion in the 1960s and the 1970s, as tentacles of government progressively invade private lives and as the alleged objectives of such invasions recede yet further from attainment.”

Beginning with the publication of Explorations in the Theory of Anarchy and Further Explorations in the Theory of Anarchy, this first group of scholars, “stimulated more or less directly by Winston Bush” (Buchanan, chapter 15, page 191), was defined by a presumption of pessimistic anarchism. Anarchy, as it was understood in these two early volumes, referred to a “state in society characterized by the absence of law coupled with anonymity” (Hogarty, chapter 10, page 99). “The anarchists of the 1960s,” according to Buchanan (chapter 15, page 192), “were enemies of order, rather than proponents of any alternative organizational structure.” Therefore, the common assumption held by these pessimistic anarchists was an identification of government with law (see chapter 17), failing to distinguish between “the law as government-enforced prohibitions from the law as social order” (Storr, chapter 11, page 114, emphasis in original).

It is understandable, given the historical context in which they were writing, that Buchanan, Bush, and the other contributors regarded anarchism with skepticism. However, the basis of their skepticism was that anarchy as a viable alternative of governance presumes either that individuals would have to be already persuaded by the merits of anarchy (see chapter 16), or that it “tends to presume the behavior necessary to produce the results intended” for anarchy to succeed (Samuels, chapter 13, page 163). Without conceiving of an alternative structure of governance, these pessimistic anarchists claimed that anarchy would require a benevolent transformation of human nature, because anarchy, as they viewed it, would be unbound by any rules to constrain violent and opportunistic behavior (see chapter 15). It was this critique of anarchy to which the contributors of Anarchy, State and Public Choice would later respond.

THE GENERATION OF OPTIMISTIC ANARCHISM

Stringham, like his predecessor Bush, was a “principal instigator” in promoting a research interest in the economic analysis of anarchy. While he was
still a graduate student at George Mason University (GMU), not only did Stringham foster a climate of critical inquiry to advance research in anarchy, but he also organized the publication of *Anarchy, State and Public Choice* and inspired a new generation of young graduate students to make contributions to this research program. Each of these graduate student papers was written in response to contributions in *Explorations in the Theory of Anarchy* and *Further Explorations in the Theory of Anarchy*.

This second generation of scholars working in the VPE tradition can be characterized by a presumption of optimistic anarchism. For them, anarchy, “simply put, means a society without government,” yet not necessarily with disorder (Storr, chapter 11, page 113). They challenged the pessimism of the previous generation on both theoretical as well as empirical grounds. Although radical in their conclusions, the premises of their argument follow logically out of the VPE paradigm.

In an ironic generational twist, the theoretical challenge of the optimistic anarchists was to assume behavioral symmetry in both market as well as nonmarket settings. “Ironically, in ‘Before Public Choice,’ and in *The Limits of Liberty*,” Benjamin Powell (chapter 9, page 91) argues, “Buchanan does not analyze government with the same assumptions he makes about people in anarchy.” If individuals are modeled to act opportunistically in anarchy, then the same assumptions must be used to model individuals in government. Moreover, in response to Tullock’s “The Edge of the Jungle,” Christopher Coyne (chapter 5) points out that limitations to the discipline of repeated dealings, which Tullock claims will hamper the protection of property rights under anarchy, must also apply to his theory of government. Tullock had assumed that government officials would be constrained from predation by the discipline of repeated dealings with their subjects. “Underlying Tullock’s oversight,” Coyne (chapter 5, page 56) argues, “is his characterization of the rulers as monetary income maximizers.” However, like any other individual, rulers must be assumed to be maximizing psychic income, which includes both monetary and nonmonetary forms of income. If so, “[r]ulers may gain (psychic) income by holding and wielding power even though they may not maximize monetary revenue by doing so. And, if they do so, their actions may conflict with the ruled group’s interests far more than Tullock’s analysis suggests” (chapter 5, page 56). In short, the optimistic anarchists challenged the pessimistic presumption of anarchy—namely, by undermining the optimistic presumption that government is a viable provider of governance. This challenge was not only theoretical but also empirical.

Whereas the pessimistic anarchists saw the gains from trade and innovation being limited by the extent to which governments secured property rights and enforced contracts, the empirical challenge of this new and optimistic generation of graduate students was to perceive the existence of such potential
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gains from trade and innovation as an entrepreneurial profit opportunity for the endogenous formation of norms and rules. On empirical grounds, both generations of anarchist scholars had argued not only that the relative performance of anarchy “would vary by time and place, by historical experience, etc.” (Hogarty, chapter 10, page 101), but also that “[t]here is nothing inherent in the service of coercive third-party enforcement that would exclude the possibility of its private provision a priori” (Leeson, chapter 7, page 73, emphasis in original). The task of exploring the possibility and relative performance of anarchy is regarded by both generations as an empirical one, which merits detailed historical case study.

However, as Virgil Storr (chapter 11, page 120) argues, using brown rats, children on a desert island, or prisoners as case studies of anarchy does “little to convince us that anarchy is unworkable or undesirable.” That is not to say, as Warren Samuels (chapter 13) rightly argues, that the use of power or coercion among bad men would be absent under a state of anarchy. However, this misses the fundamental point. Given that power and coercion is ubiquitous under any institutional arrangement, the fundamental question, as Scott Beaulier (chapter 14) points out, is of a comparative institutional nature: under which institutional system can bad men do least harm? Conceived in this manner, the question that analytical anarchism is trying to answer is “the fundamental question in all of political economy” (chapter 14, page 188, emphasis in original).

In attempting to answer this question, both generations of scholars were employing methodological individualism, consistent with the public choice paradigm. However, whereas the earlier VPI generation was more Hobbesian, the GMU generation of anarchists was more Smithian in orientation. As Jason Osborne (chapter 3, page 34) concludes his chapter, although anarchy is not “in all cases strictly superior to government in terms of maximizing individuals’ wealth, it is hoped that it demonstrates that we can expect much more cooperation than Winston Bush had in mind.” For example, in response to J. Patrick Gunning (chapter 6), who argued for the emergence of government on the basis of its specialized ability to enforce contracts, Peter Leeson (chapter 7) counters with both experimental and historical evidence to argue that noncoercive private mechanisms have emerged to enforce contracts. “Ostracism, injured reputation, refusal of future interaction or general boycott, for example, would all be considered indirect means of ‘punishment’ under a non-coercive enforcement mechanism” (chapter 7, page 68).

The central message of Anarchy, State and Public Choice is not that the amount of social cooperation under anarchy is always and everywhere greater than under government, but rather that the level of cooperation among self-interested individuals is greater than we might imagine. Seen from this perspective, it should be viewed as a complement, rather than a substitute, to the volumes to
which it was responding. Explorations in the Theory of Anarchy and Further Explorations in the Theory of Anarchy convincingly demonstrate that lawlessness is undesirable and that the study of analytical anarchism cannot be devoid of economic content. However, its contributors were overly pessimistic about the prospects of anarchy and overly optimistic about the ability of government to deliver law and social order. To complement this narrative, the contributors of Anarchy, State and Public Choice, using the tools of public choice analysis, argue that we must “assume anarchy” to be a viable alternative for governance. As Raghuram Rajan has argued, “at least in the developing world, the complete markets model is too far distanced from reality to be useful.” The standard neoclassical model populated by fully informed and homogenous agents, in which governments provide well-defined and well-enforced property rights, is unreliable to understanding the developing world, precisely because the situation is one in which individuals are heterogeneous, have imperfect information, and exhibit high discount rates. Moreover, governments in the developing world also provide poor enforcement of property rights or are outright predatory. Therefore, collective action problems that may exist under anarchy may prove to be even worse under a dysfunctional government. Moreover, specific events, such as the collapse of communism in Eastern and Central Europe, ethnic and religious fractionalization in the Balkans and the Middle East, and the exportation of liberal democracy to failed and weak states in the developing world, have demonstrated that governance requires the endogenous formation of rules, rather than their exogenous imposition.

THE FUTURE OF VPE AND ANARCHY

Anarchy, State and Public Choice is a novel contribution in the grand tradition of VPE. A testament to its importance is the new generation of young and optimistic anarchists, among them the contributors to this volume, whose work has continued beyond the pages of this book. Since the publication of Anarchy, State and Public Choice, experimental evidence has revealed not only higher levels of cooperation under anarchy than otherwise imagined, but also historical case studies across place and time demonstrating alternative institutional mechanisms to facilitate social order outside the shadow of the state. From the medieval Scottish borderlands to contemporary Somalia or from 17th- and 18th-century pirates to modern-day prison gangs, anarchy works better than we think. The capacity for anarchy to provide governance consists of various mechanisms to exclude and sort uncooperative or otherwise untrustworthy individuals from potential trading partners, but also inclusionary sorting mechanisms that signal commitment and trustworthiness on different margins among heterogeneous trading partners. Rather than engaging in a normative
assessment of anarchy, what has followed from *Anarchy, State and Public Choice* is the positive analysis of self-governance and the vast array of mechanisms used to enforce property rights and contracts outside the shadow of the state. *Anarchy, State and Public Choice* has proved to be a watershed moment not only in the study of VPE, but also to the study of analytical anarchism as a progressive research program.

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NOTES


4. What is interesting to note is how the citation pattern of the forerunners to this volume has changed since its publication. Before the publication of *Anarchy, State and Public Choice*, citations to Gordon Tullock’s *Explorations in the Theory of Anarchy* (Blacksburg, VA: Center for the Study of Public Choice, Virginia Polytechnic Institute and State University, 1972) and *Further Explorations in the Theory of Anarchy* (Blacksburg, VA: University Publications, 1974) numbered 36 and 16, respectively. As of December 2017, the number of citations to *Explorations in the Theory of Anarchy* has more than doubled from 36 in 2005 to 91, and the number of citations to *Further Explorations in the Theory of Anarchy* has also more than doubled from 16 to 47.
5. It was also the rise of the welfare state and Vietnam War statism during the 1960s and 1970s that provided the historical context within which not only Murray Rothbard, but also David Friedman, who was also later a faculty member of VPI (1976–1980), explored anarchism as a viable alternative to the skepticism of Buchanan, Tullock, and Bush.


8. This term was used by Peter Leeson, a fellow graduate student at George Mason University, to describe Stringham’s role in reviving an active environment of research among graduate students not just in the economic analysis of anarch, but also more broadly in the field of Austrian economics, from which Stringham takes his broader interest in the spontaneous emergence of rules for self-governance. For more on this topic, see http://austrianeconomists.typepad.com/weblog/2008/07/ed-stringham-an.html.

9. The exception to this is chapter 12 by Laurence Moss.

10. As Buchanan argued this point, “The economist should not be content with postulating models and then working within such models. His task includes the derivation of the institutional order itself from the set of elementary behavioral hypotheses with which he commences. In this manner, genuine institutional economics becomes a significant and an important part of fundamental economic theory.” See James M. Buchanan, *The Collected Works of James M. Buchanan Volume 5: The Demand and Supply of Public Goods* (Indianapolis: Liberty Fund, [1968] 1999), 5.


Acknowledgments to the first edition

I am thankful to the late Winston Bush, who persuaded public choice economists to study anarchy three decades ago. Their initial work at the Center for the Study of Public Choice is the impetus for this volume. I was fortunate enough to take classes from James Buchanan and Gordon Tullock at George Mason University. On many occasions I heard how rewarding their collaborative project on anarchism had been, so I decided that the younger economists at George Mason University should take up the issue once more.

Thanks go to these six contributors at George Mason University for doing such a great job. It has been a pleasure working with them, and I learned a lot. I also thank Buchanan, Tullock, Jeffrey Rogers Hummel and Peter Boettke for writing comments. At various dates in 2002 the articles were presented at George Mason University, the Association for Private Enterprise Education Conference, the Austrian Scholars Conference, and a symposium on the topic at the Mercatus Center, so thanks go to those who gave comments there, including Bryan Caplan and Tyler Cowen.

I appreciate Jeffrey Tucker for advising me to move forward at the initial stage of this project, and I appreciate Alan Sturmer, Tara Gorvine, Caroline Cornish and those at Edward Elgar Publishing for their work at latter stages. I also thank Tullock for allowing us to reprint the original essays. Tullock is a great professor who never misses an opportunity to deride anarchism, but he has been very encouraging in his unique way.

Most of all, I thank Peter Boettke for all his encouragement and support. All the young contributors to the volume wrote their dissertation under Peter Boettke, and we are grateful for that. Without Boettke, none of this would have been possible. This book is dedicated to him.

Edward Stringham, 2005
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