

18. Anarchism as a progressive research program in political economy*

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Economic theory, since its first systemic treatment in Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*, has clearly stressed the mutual benefits of voluntary trade. By specializing in production and offering the goods and services for exchange with others, both individuals and society will be made better off. The source of wealth is not the natural resources that lie in the land, or the conquests of foreign lands, but an expanding division of labor driven by voluntary exchange. Smith had established a presumption toward voluntarism in human interaction on consequentialist grounds. Individual liberty was not only right from a moral perspective, but would yield greater social benefits as well. However, from the beginning of economics it was argued that these benefits of voluntary exchange could only be realized if the presumption toward voluntarism was suspended in order to create the governmental institutions required to provide the framework within which voluntary exchange can be realized.¹

Precisely how much the presumption toward voluntarism would need to be suspended in order to provide the framework for voluntary exchange has been one of the most contested issues in economics since the late nineteenth century. The theory of public goods, monopoly and market failure all contributed to expanding the acceptance of coercion and qualifying the presumption toward voluntarism among mainstream economists. It is important to remember that each of these arguments for qualifying the presumption have been met with counter-arguments by economists that have demonstrated that so-called public goods can actually be privately provided, monopoly is not a natural outgrowth of voluntary exchange but the result of government intervention, and that market failures are themselves at root

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caused by legal failures and not the consequence of unfettered exchange. Although a dominant line of research has pushed against the presumption of voluntarism, another line of research suggests that the presumption should be upheld more consistently if peaceful and prosperous social order is to be achieved.

It is this alternative line of research that I want to emphasize in my comments here. As I will explain, my emphasis will be on what I will call ‘positive analytical anarchism’ and the evolutionary potential of these ideas as a progressive research program in political economy in the contemporary setting of social science.

ANARCHISM AS A HISTORICAL IDEA IN POLITICAL ECONOMY

The idea that the voluntary presumption should be held in a consistent and unwavering manner has not been absent in political economy. It has, however, been consistently argued by the mainstream of political and economic thought to be an impractical ideal. In *Leviathan*, Thomas Hobbes argued that social order in the absence of an effective government would devolve into a war of all against all and life would be nasty, brutish and short. John Locke was not so pessimistic in his judgment of society without a state, but he argued that such a natural state would not be as effectively organized as a society governed justly. As we have already seen, Adam Smith argued that commerce and manufacturing could not flourish outside of a state of just government, and while David Hume argued that we should model all politicians as if they were knaves, he still insisted that an effective government was required to realize the system of ‘property, contract and consent’.

In histories of political and economic thought we often pass over the anarchist writers too quickly. There are, however, some good reasons for this. Anarchist writers have always been minority figures, and anarchist writers have often waxed lyrical about worlds of post-scarcity and populated by transformed human spirits. But not every anarchist thinker in the history of political economy should be so easily dismissed. The historical anarchist discussion can be divided into three major categories:

1. Utopian – following in the tradition of William Godwin’s *An Enquiry Concerning Political Justice* (1793).
2. Revolutionary – following in the tradition of Mikhail Bakunin and the First International, 1864–76.
3. Analytical – in the tradition of Murray Rothbard’s *For a New Liberty* (1973) and David Friedman’s *The Machinery of Freedom* (1973).

For my present purposes I will limit my discussion to analytical anarchism.² The reasons for this are straightforward. However historically important utopian and revolutionary anarchism may be, both traditions are decidedly devoid of economic content, whereas analytical anarchism is grounded in economic reasoning.

Thomas Carlyle described nineteenth-century *laissez faire* as ‘anarchism with a constable’. Rothbard and Friedman were the first modern economists to ask whether the services of the constable needed to come from a monopoly provider. Unlike previous anarchist authors, Rothbard and Friedman avoided slipping in assumptions of post-scarcity or the benevolent transformation of the human spirit.³ Instead, in a world of scarcity, populated by self-interested actors, Rothbard and Friedman reasoned that not only could social order be achieved in a world without a government-supplied constable, but, in fact, peace and prosperity would be achieved as well.

The challenge that Rothbard and Friedman represented to the mainstream of political philosophy and public economics did not attract the attention it deserved, but it was recognized by two major figures – Robert Nozick in political philosophy, and James Buchanan in public economics.⁴ Nozick (1974) argued, using the invisible-hand style of reasoning that is closely associated with the discipline of economics, that if one starts in a world of anarchism one can derive a minimal state without violating the rights of individuals due to the natural monopoly character of law and order. Nozick, in a fundamental sense, harked back to Locke’s argument and argued that civil society was possible absent the state, but that certain goods and services required for a more prosperous social order could only be provided by a monopoly supplier.⁵ Buchanan (1975), on the other hand, relied on social contract theory to escape from the anarchist state of nature and in so doing explicitly harked back to Hobbes’s argument that absent a sovereign the social order would be meager at best.

The discussion of analytical anarchism in the academic literature tailed off after Nozick and Buchanan.⁶ Nozick’s argument on the logical inevitability of a minimal state via an invisible-hand process was taken as proof of the failure of the argument of Rothbard and Friedman concerning anarcho-capitalism. The academic discussion in political philosophy moved from the justification of a minimal state to whether Nozick’s arguments against distributive justice worked as an argument against the dominant Rawlsian notions of just distribution. The vast majority of political philosophers sided with Rawls on this issue, but even for those who sided with Nozick the question remained whether he had established appropriate limits on the redistributive state.⁷ Buchanan’s work, as it relates to this discussion, had its greatest impact in the effort to provide an analytical argument for the constraint of the growth of government. Buchanan distinguished between the protective state, the productive state, and

the redistributive state. The argument against Rothbard and Friedman made by Buchanan was intended to establish the necessity of the protective state (court system, and domestic and national security) and the desirability of the productive state (public goods such as roads and libraries). But Buchanan warned of the expansion of the state via rent-seeking through the redistributive state. The puzzle in Buchanan's work moved from escaping from anarchism to effectively constructing constitutional-level constraints in government so that the protective and productive state could be established without unleashing the destructive rent-seeking tendencies of the redistributive state.⁸ How can a minimal state be kept in check and not evolve into a maximum state? Anarchism represents one side of the social dilemma, with Leviathan representing the other.

Researchers in the field of political economy have sought to provide an answer to the paradox of government as put by Buchanan. The most notable attempt is probably in the work of Barry Weingast (1995) on what he terms 'market-preserving federalism'. Weingast argues that the paradox of governance can be solved through a federalist structure where political authority is decentralized, economic regulation is limited to the local level, and competition between the different levels of government is ensured. In such a political structure, a common market, Weingast reasons, is cultivated and the expansion of the markets (and with that the corresponding division of labor) results. The political institutions of constitutional constraint and the organization of federalism, where the political ambition of some is pitted against the ambition of others through structural design, leads to the economic growth and development of nations. When this structure breaks down, and the ambitions of some are realized at the expense of others (e.g. the rent-seeking phenomena of concentrated benefits on the well-organized and well-informed, and dispersed costs on the unorganized and ill-informed), economic growth is retarded. Weingast's work, while making a compelling case for the importance of fiscal federalism and a constitutional structure of limited government as responsible for the tremendous growth experienced among western democracies, also suggests that this organizational structure is fleeting at best and will break down in times of crisis. Market-preserving federalism breaks down as delineated authority is violated and economic regulation becomes centralized.⁹ The ties that bind the rulers' hands are broken, and the limits on government give way to an increase in both the scale and scope of government. State power, rather than restrained, is now unleashed.

There is no doubt that governmental structure matters for economic interaction. A state structure which aligns incentives to minimize predation economically outperforms one that provides incentives for the predation by the powerful over the weak. But it is also the case that government by its very nature is predatory and thus will be used by some to exploit others wherever

and whenever the coercive power of the government is established. In a fundamental sense government can only be constrained if the people the government is established to govern can coordinate around norms of governance which are self-enforcing.¹⁰ This is the power behind the idea that a free society works best where the need for a policeman is least. No bonds are strong enough to tie a ruler's hands, at least not for any length of time. A government that is strong enough to tie its own hands is almost by definition strong enough to break those bonds any time its rulers deem it necessary. The quest for constitutional constraints that will forever bind rulers is in vain, though it might be an example of a noble lie.

The discussion in constitutional political economy is abstract and normative in intent. The ideal of a limited government that cultivates a market economy is a normative benchmark against which real-world political economies are judged. This normative exercise emerged as practically relevant in the wake of the collapse of communism in East and Central Europe and the former Soviet Union in the late 1980s and early 1990s. The original stage of transformation began with the recognition that socialist economies were shortage economies and thus the first policy moves had to be focused on *getting the prices right*. Freedom of contract had to become the rule for economic interactions so that market prices could adjust to coordinate buyers and sellers. But getting the prices right proved to be more difficult than simply freeing up the trading process. In order for a market economy to operate, the rules providing security to market participants must be instantiated. The transformation discussion moved to a focus on *getting the institutions right*. Institutions were defined as both the *de facto* and *de jure* rules and their enforcement. But since the *de jure* rules are much easier to identify and manipulate, the focus in the literature was mainly on the official sector such as the judicial system or the regulatory apparatus. This was unfortunate because in practice the acceptance of the *de jure* rules is constrained by the *de facto* norms and conventions that govern everyday life in any given society. The difficulty of getting institutions to 'stick' in the transforming societies proved to be much more difficult than merely manipulating formal institutions of governance. For rules to stick they must be to a considerable extent self-enforcing. Thus, we have entered the current stage of discussion in transition analysis, where the focus is on *getting the culture right*. The discussions surrounding social capital, trust and civil society all relate to the idea that you need some underlying set of shared values that reside in the everyday morality of the people which legitimate certain institutional structures and patterns of social intercourse and ultimately enable the gains from peaceful cooperation to be realized.¹¹

This quick detour through the past 15 years of transition political economy demonstrates that we have moved from the normative ideal to the description of the underlying conditions necessary to realize that ideal. The social world

is not so malleable that we can impose whatever social order we desire wherever and whenever we want.¹² But there is another side to this evolution of intellectual interests. Precisely because our ability to impose exogenously the institutional structure that will effectively govern society has proven to be so weak, we must open up our analysis to the evolution of rules from games of conflict to games of cooperation. Instead of designing ideal institutional settings that we can exogenously impose on the system and thus provide the ‘correct’ institutional environment within which commerce and manufacturing can flourish, we have to examine the *endogenous* creation of the rules by social participants themselves. The science and art of association is one of self-governance and not necessarily one of constitutional craftsmanship. And herein lies the contribution that contemporary research on anarchism can make to modern political economy.

THE POSITIVE POLITICAL ECONOMY OF ANARCHISM

The focus on endogenous rule creation in commercial societies started to receive serious attention during the late 1980s. For our purposes the most important studies were conducted by Bruce Benson (1990) and Avner Greif (1989). Benson provided an examination of the law merchant and how a body of law governing the commercial transactions of traders in an international setting had developed spontaneously to provide the security for the expansion of trade. The development of international trade and the expansion of the division of labor did not require governmental institutions, but instead developed on the basis of endogenous rule creation by commercial parties as they sought to minimize conflicts and realize the gains from exchange. Greif’s work explained how trading partners functioned in medieval Europe without the sanctity of government enforcement of contracts. Greif provides a detailed historical account and uses the analytical lens of modern game theory to analyze how reputation mechanisms facilitate cooperation among traders outside of state enforcement. Benson’s argument is one where self-interest drives the development of a body of non-state law that parties agree to so that they can realize the gains from exchange even among socially distant individuals. Greif, on the other hand, shows how reputation mechanisms can serve to ensure cooperation among traders who are socially near. Greif’s work is not as optimistic as Benson’s about the ability of self-interest to generate endogenously rules of social intercourse once we move beyond small group settings where reputation mechanisms are effective.¹³

Benson and Greif are but two prominent examples of a literature that seemed to explode on issues of self-governance in the late 1980s and 1990s. Janet Landa’s (1995) study of trading networks, Lisa Bernstein’s (1992) study

of the extra-legal rules governing trade in the diamond industry, and Robert Ellickson's (1991) examination of the resolution of conflicts between ranchers and farmers in Shasta County, CA all point to a growing recognition among social scientists that advanced cooperation without command can indeed occur and does occur in a variety of social settings. Social order is not necessarily a product of governmental institutions; instead, peace and prosperity can emerge outside of the structure of state enforcement.

It might be useful to remind ourselves of the original puzzle with which we started this chapter. Economics from its founding has demonstrated that wealth and the harmony of interests in society are realized through voluntary exchange. However, the main line of thinking has been caught in a quandary because in order to realize the gains from exchange, notions of mine and thine had to be strictly defined and enforced by state agencies which required the use of coercion to secure the funds necessary to provide these services.¹⁴ The literature I pointed to above demonstrates that main-line thinking makes an error of overpessimism with regard to the ability of rules of good conduct to emerge naturally through social intercourse.

Of course, we can also make an error of overoptimism and assume that social order will emerge in the absence of any rules whatsoever. But we do not live in a world where the majority of individuals are atomistic and devoid of social feelings and desires for cooperative belonging.¹⁵ Instead, we are social creatures finding our way in the world by relying on family networks and then more extended networks. As Adam Smith put the puzzle, man 'stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons' (1776: 18). This cooperation among anonymous actors provides the central mystery in economics from its classical to contemporary incarnation.¹⁶

In addition to the theoretical puzzle of how cooperation among strangers can emerge, there is the practical issue that in many different settings the assumption of a given institutional structure of workable governance is simply inaccurate.¹⁷ To discuss these issues I shall focus on three contributors to this volume whose work on self-governance directly touches on the themes that I highlighted as characteristic of anarchism as a progressive research program in political economy. In this regard I will discuss the work of Edward Stringham (2002), Peter Leeson (2005), and Christopher Coyne (2005).¹⁸

EXCLUSION, INCLUSION AND THE ELICITATION OF COOPERATION OUT OF CONFLICT

Realizing cooperation among strangers is one of the core mysteries that economics has sought to explain since the discipline's founding. In fact, the

Greek word meaning exchange – *Katallaxy* – has another meaning which translates as the bringing of a stranger into friendship. The historical and anthropological record is full of examples of how exchange relationships between warring factions can emerge to improve the situation of these previous enemies, and often result in enemies becoming allies. Of course, we also have examples where warring strangers fail to cooperate with one another for centuries and are therefore unable to realize the cooperative benefits that would be realized if they could get past their distrust for the ‘other’.

At some level we can argue that the realization of social cooperation is the result of a delicate balancing act.¹⁹ Most economists postulate that this balancing act is accomplished by effective government to protect against predatory behavior. Yes, human nature includes a propensity to ‘truck, barter and exchange’, but it also includes an opportunistic side which when pursued uninhibitedly leads to the ‘rape, pillage and plunder’ that define much of human history. Governmental institutions, it is argued, exogenously impose order on what otherwise would be a chaotic situation. Law and order enable us to curb our opportunistic nature and realize our cooperative nature. But this solution is unsatisfactory for a variety of reasons. First, governmental institutions did not historically emerge as a consequence of a social contract, but instead through revolution and conquest. Government, in short, is not an institution that appeals to our cooperative side, but to the opportunistic side of our nature. Second, we know that the cooperation in anonymity that defines the modern division of labor resulted in the absence of government and not because of government. Trade between individuals in domestic and foreign settings does not require government oversight to emerge and develop. Third, in the pressing situations of the late twentieth century with regard to the collapse of communism in East and Central Europe and the former Soviet Union, the failure of development planning in Africa and Latin America, and the post-conflict situation of the countries of the Middle East, we cannot assume a functioning state.

The work of Stringham, Leeson and Coyne addresses these situations each in its own way. Stringham’s work focuses on the development of complicated financial arrangements such as stock exchanges in the absence of government control. He examines both historical episodes in Amsterdam and London, as well as contemporary situations such as the Czech Republic. Stock markets are an excellent case to study to highlight the issues of self-governance. Traders are asked to commit capital to an investment that will pay off only in the future, so the level of trust required is much higher than would be required to swap current goods for currency in a street market. For our present purposes, what is important is the mechanism that Stringham discovered which made these historical episodes work to elicit cooperation among strangers in the absence of government control. He postulates that in situations of dealing with

strangers, a series of ‘club-like’ arrangements emerge that seek to identify different characteristics and employ *exclusion tactics* to eliminate potential and real dishonest dealers. The self-governance of complicated financial arrangements, in other words, is possible because the organization adopts ‘Stringham mechanisms’ to exclude cheaters. By postulating a situation where a variety of traders enter the marketplace, but by examining the ‘exclusion’ criteria adopted by the trading ‘club’, Stringham highlights how only those traders who can be trusted will in fact pass the criteria threshold and be accepted. If we go back to the claim that the key idea in realizing social cooperation is somehow to get institutions that make individuals treat strangers as if they were honorary friends, then what Stringham does is show how in situations of anonymous traders, trading organizations will adopt rules that restrict membership so that traders are less anonymous, and thus reputation and multilateral punishment will suffice to ensure cooperation rather than opportunism.

Peter Leeson’s work looks at this process from the other way around. He does not address questions of trading clubs, such as stock exchanges, but focuses instead on how complete strangers signal to potential trading partners that it is worth their while to accept them into trading relationships. Stringham looked at the behavior of those accepting new trading partners; Leeson looks at the behavior of those wanting to join the circle of trading.²⁰ In this regard, ‘Leeson mechanisms’ focus on inclusion, rather than exclusion. The norm for dealing with strangers is distrust and thus exclusion, so new traders must signal to others that they possess characteristics which overcome this natural distance. We are different enough that the gains from trade are significant, but similar enough so that trust can be assured in the interaction – promises will be made and kept. Leeson’s work comes in both theoretical exercises exploring signaling and commitment, and also historical narratives discussing the law merchant, trade in pre-colonial Africa, and modern international trade. In the absence of any defined government, Leeson shows that social cooperation is indeed possible and voluntarism can flourish.

Chris Coyne’s work is different from that of either Stringham or Leeson, and focuses instead on situations of what I shall call ‘practical anarchy’. His focus is on war-torn areas where conflict is the norm, and the question is: how do they move from conflict to cooperation and realize peace and prosperity?²¹ He examines US military interventions in the post-World War II era and judges the success or failure from the intervener’s point of view. He finds that self-sustaining social order is, in fact, quite elusive. One of the important insights from Coyne’s work is the recognition of the ‘dark side’ of cooperation as well as the ‘bright side’. The stock of social capital may indeed provide us with the background trust required to realize the gains from exchange with others. But social capital can also bind us together in groups which attempt to exploit

others for our private gain. In sorting out precisely when social capital is productive, when it is destructive, and how to move along a spectrum from conflict to cooperation, Coyne is advancing our understanding of the social conditions required to realize a peaceful and prosperous order in the face of dysfunctional, or complete absence of, government rule.

All three of these researchers are advancing the existing body of literature on the nature and significance of anarchism as a starting point for research in political economy. Their work invites others to explore the political economy of stateless orders and how social cooperation through the division of labor can be realized through rules of self-governance rather than state government. The art of voluntary association moves from ideological wishful thinking to the focus of a scientific research program and in so doing harks back to the central puzzle of political economy since its founding.

CONCLUSION

I have argued that political economy was born out of a mystery and a puzzle. The mystery is, how did a complex division of labor among socially distant individuals emerge and serve as the basis of the wealth of modern civilization? In exploring this mystery economists came to highlight the mutual benefits of voluntary exchange and its self-reinforcing nature. However, this raised a serious puzzle for economists. There was a presumption toward voluntarism in human affairs, but in recognition that our nature is divided between a cooperative nature and an opportunistic nature we must figure out a way to curb our opportunistic side if we hope to realize the fruits of our cooperative side. While our cooperative nature is reflected in our propensity to truck, barter and exchange (which no other species actually exhibits), our opportunistic side is revealed in the warring nature witnessed throughout human history. Political economy solved the puzzle by suggesting that we could sacrifice in a small way the presumption of voluntarism in order to create a government which will curb our opportunistic side and enable our cooperative side to flourish. Thus was born the argument for limited, but effective, government that was the core of classical liberal thought from John Locke, David Hume and Adam Smith to more contemporary writers such as Frank Knight, Ludwig von Mises, F.A. Hayek, Milton Friedman and James Buchanan.

This solution, I have argued, must be found wanting for a variety of reasons. Instead, the sort of explorations in this book must be encouraged by scholars who understand the central mystery of economic life and are more optimistic that the puzzle of governance can be solved in a voluntaristic manner, rather than by the coercive nature of the state. Work along these lines is not only valuable at a fundamental theoretical level, but also of practical

significance as well, as we attempt to wrestle with the great social transformations of our era.

NOTES

1. As Adam Smith wrote in *The Wealth of Nations*: ‘Commerce and manufacturing can seldom flourish long in any state which does not enjoy a regular administration of justice. . . . in which the faith in contracts is not supported by the law, and in which the authority of the state is not supposed to be regularly employed to enforce the payment of debts from all those who are able to pay. Commerce and manufacturing, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of government’ (1776: 445).
2. Rothbard and Friedman did not emerge out of nothing and there are several precursors to their position found in the history of classical liberalism and the individualist anarchist movement of the late nineteenth century. An excellent resource for those interested in studying the rich history of anarchism is provided by Bryan Caplan and can be found at: <http://www.gmu.edu/departments/economics/bcaplan/anarfaq.htm>.
3. The differences between Rothbard and Friedman are significant, but not crucial to my discussion here. Rothbard relied on economic reasoning to explain the operation of the free society, but he drew normative justification from natural rights theory. Friedman, on the other hand, did not resort to rights-based reasoning, but instead presents his work as a utilitarian defense of anarchism. What I am focusing on is the economic reasoning behind each thinker, not the normative thrust of their writings.
4. The timing of these works is significant, as is the fact that they emerged in the USA rather than in the UK or elsewhere. The rise of the welfare/warfare state in the USA of the late 1960s and early 1970s provided the historical background. In the hands of Rothbard and Friedman, anarchism was a viable alternative to Vietnam War era statism. Buchanan and Nozick sought to provide an argument for the necessity of the state, but one that could be effectively constrained to minimize the coercion introduced into the social order by the state.
5. In the terms of the modern literature of public economics, Nozick argued that law and order represented a network externality. Tyler Cowen (1992) and Cowen and Dan Sutter (1999) use this network externality argument to suggest that anarchism could only work if it mimicked the state as a natural monopoly provider of law and order, and therefore would cease to be ‘anarchy’. Cowen, and Cowen and Sutter provide a new twist on Nozick’s invisible-hand theory of the emergence of the state which challenges the radical libertarian conclusions of Rothbard and Friedman. However, Caplan and Stringham (2003) provide a counter-argument to Cowen, and Cowen and Sutter.
6. A small libertarian following continued to work in the framework of Rothbard and Friedman, but its influence in professional discussions was limited. The arguments by Nozick and Buchanan, on the other hand, attracted considerable attention in the mainstream literatures of philosophy, politics and economics. Nozick’s *Anarchy, State and Utopia* actually won the 1975 National Book Award for Philosophy and Religion, and Buchanan was awarded the 1986 Nobel Prize in Economic Science.
7. Not enough work, in my opinion, was done to follow up on the last section of *Anarchy, State and Utopia*. However, see Boettke (1993: 106–31), where Nozick’s discussion of decentralized communities is employed to examine the restructuring of post-communist societies.
8. This volume is dedicated to addressing the effectiveness of Buchanan and his colleagues’ effort to provide the lead out of anarchism, and the papers can be divided into two camps. The first camp challenges the proposition that the anarchist state would be as undesirable as Buchanan and his colleagues describe. The second camp argues that the effort by Buchanan and his colleagues to escape from anarchism is not as solid as was concluded at the time these works first appeared. I am emphasizing a slightly different path forward for research on anarchism than either challenging the Hobbesian description or the effectiveness of the

constitutional contract, though my intellectual sympathies lie with these challenges. I first discussed this in my student days (Boettke, 1987) while commenting on Buchanan's contribution to political economy and Austrian economics in celebration of my teacher winning the Nobel Prize.

9. One of the most candid essays I have ever read in the academic literature was written by Robert Higgs and is entitled 'Can the Constitution Protect Private Property Rights During National Emergencies?' The answer, Higgs states, 'is no. The historical record is quite clear; and in regard to this question there is no reason to suppose the future will differ from the past' (1988: 369).
10. This coordination aspect of constitutional governance is explored in Russell Hardin's *Liberalism, Constitutionalism and Democracy* (1999).
11. Another significant literature that has emerged is the one on state-building and in particular the idea of the governing capacity of a society. This literature is summarized in Fukuyama (2004). This literature fits into my description between getting the institutions right and getting the culture right. It is an attempt to clarify what is required of the apparatus of public administration in transition and less developed economies to achieve success while leaving the question of the underlying morality aside. In the end of the analysis, however, the underlying morality of the people under examination is recognized to be the constraint that ultimately determines success or failure in the effort at state-building.
12. See Boettke (2002: 248–65).
13. However, see Klein (1997), where a collection of articles across disciplines and in a variety of circumstances demonstrates that reputation and other social customs emerge to elicit good conduct among individuals even in the absence of governmental rules to protect against fraud and theft.
14. However, see David Schmidtz's *The Limits of Government: An Essay on the Public Goods Argument* (1991), where this standard public-goods defense of government coercion is challenged.
15. Experimental work in economics has repeatedly demonstrated that we get higher degrees of cooperation among anonymous traders than what strict rationality as assumed in game theory would predict. See Smith (2003) for an overview of this work. Of course, our sense of belonging can also be a curse as well as a blessing. This is the great tension that Hayek highlighted in his later work (e.g. 1979), where we are hardwired biologically for cooperation in small bands and thus have a natural tendency toward atavistic morality whereas to live and thrive in modern society we have to take a less atavistic approach toward our interaction with others. Developing a morality for the modern commercial society is actually one of the more challenging tasks in political philosophy.
16. See Seabright (2004) for a discussion of this central mystery of economic life and how research in economics and other disciplines is improving our understanding of the mediating institutions which enable us to realize the gains from division of labor and exchange through our cooperation with complete strangers and yet ward off complete ruin through opportunism.
17. Rajan (2004) discusses this with regard to underdeveloped countries and argues that standard economic models are poor guides to public policy precisely because of this. He calls for research that assumes anarchy as the starting state and then explains how social cooperation can emerge in such a setting. Francis Fukuyama (2004) also argues that standard economic models fail on the ground of assuming what they must prove in his discussion of the building of state institutions and improving their operation. Both Rajan and Fukuyama can be seen as establishing the research ground for 'practical anarchism', but the question of whether a working government is required to realize the benefits of an advanced network of exchange relations must remain open.
18. There is no substitute for reading the original, so the reader is encouraged to read these works rather than rely on the superficial summary provided here, as I focus on certain aspects of their work rather than on the entire complex story that these authors weave. My purpose here is only to look at their work as an invitation to others to follow their analytical lead and do theoretical and empirical research on the elicitation of cooperation in the absence of a recognized government and under a situation of anonymity. Let me be clear

about my terminology before proceeding. First, by progressive I do not mean merely empirical progress, but a much broader notion which is meant to capture the idea that a research idea stimulates others to do work on the same topic. If a research program is progressive, it will, for example, generate ten papers by different scholars for every core paper written on the topic. It will lead others to explore the empirical world to see the mechanism in operation, or it will motivate others to examine the logical foundations of the mechanisms specified. Second, by absence of government I mean both the absence of governmental institutions, and also situations where there is no clearly recognized monopoly of coercion. Situations with competing governments are anarchical, just as situations where there is no government to speak of. Third, the social dilemma will be limited to situations of large group settings with socially distant individuals (strangers) and we will not examine the situation of how social cooperation can emerge among family members or close kin. In other words, we have to examine the question of cooperation in anonymity. The answer seems to lie in mechanisms to make situations of anonymity appear as situations of kinship. Fourth, by social cooperation I do not mean the complete absence of violence or dishonest behavior, but rather that social interaction is primarily cooperative and that effective mechanisms emerge that penalize anti-social behavior so that a cooperative norm rather than a conflict norm dominates social intercourse.

19. The idea that our social order is a delicate balancing act is explored in Seabright (2004). As he puts it: 'Nature knows no other examples of such complex mutual dependence among strangers.' The complex division of labor that defines modern society must be protected against our opportunistic nature. Our institutions must make it possible for us to treat complete strangers as if they were honorary friends. There is a delicate balancing act between our opportunistic and cooperative natures, but we need robust institutions that ward off our opportunistic side and encourage our cooperative side. 'In other words, participants need to be able to trust each other – especially those they do not know. Social cooperation depends on institutions that have exactly such a property of robustness' (2004: 2; 5).
20. Leeson has focused his research on those situations where a strict meaning of reputation and multilateral punishment would not suffice because the trading group is too large and anonymous, and yet cooperation is elicited through the process of signaling and commitment.
21. In this regard Coyne (2005) is taking seriously the admonition from Rajan (2004) that economists stop assuming the functioning background of respected property rights enforced by the courts and developed markets. Instead, Coyne is examining the 'mechanisms' by which, starting in a conflict-torn area, cooperation can emerge through the choices of individuals, and the difficulties confronted by outside actors (e.g. foreign military intervention) to impose a cooperative order.

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