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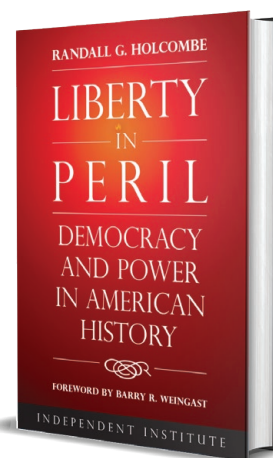
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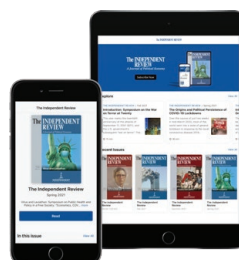
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Government: Unnecessary but Inevitable

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RANDALL G. HOLCOMBE

Ludwig von Mises, Friedrich Hayek, and Milton Friedman, perhaps the best-known twentieth-century academic defenders of liberty, envisioned a role for limited government in protecting liberty.¹ Friedman's (1962) defense of freedom includes proposals for a negative income tax and school vouchers; Hayek (1960) advocates limited government to enforce the rule of law despite his concern about excessive government;² and Ludwig von Mises, who also warns of the dangers of big government,³ states, "the task of the state consists solely and exclusively in guaranteeing the protection of life, health, liberty, and private property against violent attacks" (1979, 52). In contrast, by the end of the twentieth century, many libertarians, guided by the work of Murray Rothbard and others, viewed orderly anarchy as a desirable and potentially achievable state of affairs and—some would argue—the only state of affairs consistent with a libertarian philosophy.⁴ My purpose in this article is to examine that proposition critically and to defend and extend the classical liberal idea of limited government. My conclusions align more with those theorists, such as

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1. I refer only to academic defenders of liberty because other libertarians need not be so rigorous in their analysis of alternatives to the status quo. H. L. Mencken, for example, could offer trenchant critiques of government without having to offer an alternative. Ayn Rand, a novelist, did not need to offer alternatives but did offer them, and she also belongs to the limited-government camp. The Libertarian Party in the United States runs candidates for political office, a few of whom are elected. Although some people view libertarianism as consistent with only the elimination of all government, many people who call themselves libertarians see a role for limited government.

2. Hayek argues for limited government despite his reservations (for example, in Hayek 1944) about the expansion of government.

3. See, for example, Mises 1998, 715–16, for a discussion of the role of government. Elsewhere, Mises (1945) expresses his reservations about government.

4. Rothbard 1973 explains how private arrangements effectively can replace all of government's functions, and Rothbard 1982 gives an ethical argument for the complete elimination of government.

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Hayek and Mises, who see a need for limited government than with those who see the libertarian ideal as an orderly anarchy.

The debate over limited government versus orderly anarchy typically turns on the effectiveness of government versus private means to achieve certain ends. Government's defenders argue that markets cannot provide certain goods and services as efficiently as government can—in some cases, markets may be completely unable to provide certain desired goods—whereas the advocates of orderly anarchy argue that private contractual arrangements can provide every good and service more effectively and can do so without the coercion inherent in government activity. I maintain, however, that the effectiveness of government versus that of private arrangements to produce goods and services is irrelevant to the issue of the desirability of government in a libertarian society. Governments are not created to produce goods and services for citizens. Rather, they are created and imposed on people by force, most often for the purpose of transferring resources from the control of those outside government to the control of those within it.

Without government—or even with a weak government—predatory groups will impose themselves on people by force and create a government to extract income and wealth from these subjects. If people create their own government preemptively, they can design a government that may be less predatory than the one that outside aggressors otherwise would impose on them.⁵

Anarchy as an Alternative to Government

One strand of the libertarian anarchist argument is the claim that everything the government does, the market can do better, and therefore the government should be eliminated completely.⁶ A second strand is the proposition that government is uneth-

5. Robert Higgs has written, "Without government to defend us from external aggression, preserve domestic order, define and enforce property rights, few of us could achieve much" (1987, 1). He recently reevaluated his position, however, and now declares, "When I was younger and even more ignorant that I am today, I believed that government . . . performs an essential function—namely, the protection of individuals from the aggressions of others. . . . Growing older, however, has given me an opportunity to reexamine the bases of my belief in the indispensability of the protective services of government. . . . As I have done so, I have become increasingly skeptical, and I now am more inclined to disbelieve the idea than to believe it" (2002, 309). In this more recent article, Higgs does not deal with the argument that private protective services work under the umbrella of the state and that without the state to check their power they might evolve into organizations more predatory than a constitutionally limited state. In my view, Higgs's earlier position retains merit.

6. In Holcombe forthcoming, I discuss some of this literature. See, for example, the critiques by de Jasay (1989), Foldvary (1994), and Holcombe (1997) of the public-goods rationale for government, and by Berman (1983), Foldvary (1984), D. Friedman (1989), Benson (1989, 1990, 1998), Stringham (1998–99), and Tinsley (1998–99) on how law can exist without the state, how property rights can be defined, and how externalities can be internalized through private arrangements. Rothbard (1973) and D. Friedman (1989) more generally describe how the private sector can handle better all activities the state currently undertakes. Another justification for the state is the social contract theory that goes back at least to Hobbes ([1651] 1950) and appears in the work of Rawls (1971) and Buchanan (1975). De Jasay (1985, 1997) and Yeager (1985) present extensive critiques of the social contract theory, and Axelrod (1984), Foldvary (1984), de Jasay (1989), Rothbard (1973), D. Friedman (1989), Benson (2001), and many others have shown how private arrangements can overcome the prisoners' dilemma problem. In Holcombe 2002b, I note that the actual activities of government do not correspond with the social contractarian framework.

ical because of its use of force.⁷ Murray Rothbard has been the leading proponent of both arguments, and his 1973 book *For a New Liberty* is his most direct defense of orderly anarchy. Rothbard illustrates how the private sector can undertake more effectively all government activities, including national defense. All of Rothbard's arguments are persuasive, but his national-defense argument is worth reviewing here because it has direct relevance to my thesis.

Rothbard argues first that national defense is needed only because the governments of some countries have differences with the governments of others. Wars occur between governments, not between the subjects of those governments. Without a government to provoke outsiders, outside governments would have no motivation to attack, so a group of people living in anarchy would face a minimal risk of invasion from a foreign government. An auxiliary line of reasoning is that if a government does try to use military force to take over an area with no government, such a takeover would be very difficult because the aggressor would have to conquer each individual in the anarchistic area. If those people have a government, a foreign country has only to induce the other country's head of state to surrender in order to take over that other country, but in taking over a country without a government an aggressor faces the much more daunting task of getting everyone to surrender, going from house to house and from business to business, a formidable and perhaps impossible undertaking.⁸

Jeffrey Rogers Hummel offers an interesting extension of Rothbard's arguments regarding defense. Hummel (1990) argues that national defense against foreign aggression is a subset of the problem of protecting people from any state, domestic or foreign, and Hummel (2001) notes that if people can design institutions to protect themselves from domestic government, those same institutions should suffice to protect them from foreign governments. In this line of reasoning, the private production of defense services would occur as a by-product of the elimination of domestic government by an orderly anarchy.

These arguments regarding national defense show the flavor of the argument that people would be better off without government. Orderly anarchy would eliminate the need for government provision of national defense because the risks of invasion would be lower and because the private sector can supply any defense services people want. By considering each activity the government now undertakes, a sub-

7. See, for example, Rothbard 1982. Rothbard 1956 lays a foundation for both the ethical and economic arguments against government by reformulating welfare economics to show that market activity is welfare enhancing, whereas government activity, which relies on coercion, is not. Along these lines, Brewster 2002 argues that the state cannot exist if by *state* one means an organization acting in the public interest. People act in their own interests, Brewster argues, and the state is merely designed to appear as if it acts in the public interest. Edelman 1964 lays an interesting foundation for this point of view.

8. This argument is developed further in Hoppe 1998–99, which argues that in the absence of government, insurance companies can provide defense services. This argument is interesting, but it should be noted that companies that offer fire insurance or theft insurance do not provide home security or fire protection services even in areas where such services are not available from government. Note also that typical insurance policies often exclude losses owing to war, even though government provides defense services. In the absence of government, if companies offered insurance against losses from foreign invasion, they might find it cheaper to pay their policyholders for their losses than to provide defense services to protect them.

stantial literature shows that in each case a superior private-sector alternative exists or might be created. Private arrangements can provide public goods, law, and order at any scale. A substantial mainstream academic literature on the inefficiencies of government production and regulation further buttresses the case against government. Thus, the libertarian anarchist position rests heavily on the argument that anything the government does, the private sector can do more effectively and less coercively.

Why Do Governments Exist?

The argument that people should do away with government because everything the government does the private sector can do better would be persuasive if governments were created, as their rationales suggest, to improve their subjects' well-being. In fact, governments are not created to improve the public's well-being. In most cases, governments have been imposed on people by force, and they maintain their power by force for the purpose of extracting resources from subjects and transferring the control of those resources to those in government. Sometimes foreign invaders take over territory and rule the people who live there; more commonly, people already subject to a government overthrow it and establish a new government in its place. Whether government is more or less effective in producing public goods or in protecting property is irrelevant.

A possible exception to this claim is the formation of the U.S. government, which was established to overthrow British rule in the colonies and to replace it with a new government designed to protect the liberty of its citizens. Much of the Declaration of Independence consists of a list of grievances against the king of England, and the American founders wanted to replace what they viewed as a predatory government with one that would protect their rights. One can dispute this story,⁹ but for present purposes the point is that even in what appears to be the best real-world case in which government was designed for the benefit of its citizens, it was not designed to produce public goods or to control externalities or to prevent citizens from free riding on a social contract. Its underlying rationale had nothing to do with any of the common economic or political rationales given for government.

The point here is straightforward: despite many theories justifying government because its activities produce benefits to its citizens, no government was ever established to produce those benefits. Governments were created by force to rule over people and extract resources from them. Thus, the argument that citizens would be better off if they replaced government activities with private arrangements and market transactions is irrelevant to the issue of whether an orderly anarchy would be a desirable—or even feasible—replacement for government. The real issue is whether a group of people with no government can prevent predators both inside and outside their group from using force to establish a government.

9. See, for example, Beard 1913, which argues that the U.S. Constitution was written to further its authors' interests.

Protection and the State

Without government, people would be vulnerable to predators and therefore would have to find ways to protect themselves. In the anarchy Hobbes described, life is a war of all against all—nasty, brutish, and short. The strong overpower the weak, taking everything the victims have, but the strong themselves do not prosper in Hobbesian anarchy because there is little for them to take. Nobody produces when the product will surely be taken away from them. Even under more orderly conditions than Hobbesian anarchy, predation has a limited payoff because people who have accumulated assets forcibly resist those who try to plunder them, and the ensuing battles consume both predators' and victims' resources.¹⁰

Disorganized banditry produces Hobbesian anarchy in which nobody prospers because nobody has an incentive to be productive. If the predators can organize, they may evolve into little mafias that can offer their clients some protection. This evolution will create a more productive society, with more income for both the predators and their prey, but the mafias will have to limit their take in order for this outcome to arise. If the mafia can assure its clients that in exchange for payment they will be protected from other predators and allowed to keep a substantial portion of what they produce, output will increase, and everybody's income can rise. Losses from rivalries among mafias will continue to be borne, however, because competing mafias have an incentive to plunder individuals who do not contract with them.

If the mafias become even better organized, they can establish themselves as a state. Predators have every incentive to move from operating as bandits to operating as states because bandits cannot guarantee themselves a long-term flow of income from predation and because if banditry is rampant, people have little incentive to produce wealth. States try to convince citizens that they will limit their take and that they will protect their citizens in order to provide an incentive for those citizens to produce. Governments receive more income than bandits because governments can remain in one place and receive a steady flow of income rather than snatching once and moving on (Usher 1992). In such a situation, citizens gain, too (Holcombe 1994).

Nozick (1974) describes this process in more benign terms. Nozick's protection agencies establish monopolies and evolve into a minimal state, but the evolutionary process is the same. The evolution of predatory bandits into mafias (protection firms) and thence into governments may be inevitable. If not inevitable, it is desirable because governments have an incentive to be less predatory than bandits or mafias. Citizens will be more productive, creating more for predators to take and more for citizens themselves to keep. The predators gain because they need only threaten to use force in order to induce the victims to surrender their property. Citizens benefit

10. See Tullock 1967, an article titled "The Welfare Costs of Tariffs, Monopolies, and Theft," which is focused on the welfare cost of monopolies and tariffs, but whose arguments about theft apply here. See also Usher 1992 for a Hobbesian view of life in anarchy. See Bush 1972 for a formal model of the costliness of anarchy and how it leads to government.

because they need not devote resources to using force in defense of their property—the government protects property, except for the share it takes for itself.¹¹

Successful predation of this type requires a particular institutional arrangement in which government makes a credible promise to limit its take and to protect its citizens from other predators. Only then do citizens have an incentive to produce much. Government has an incentive to protect citizens in order to protect its own source of income.

The contractarian literature of Rawls (1971), Buchanan (1975), and especially Tullock (1972, 1974) is related to the argument presented here, but it differs in a significant respect. Noting the problems that exist for citizens in Hobbesian anarchy, these writers argue that citizens can gain by forming a government to protect property rights and to enforce contracts. Government is a result of the contract, not a party to it. The argument here is not that government will be created because everyone's welfare will be enhanced by an escape from anarchy, but rather that anarchy will not persist because those with the power to create a government will do so regardless of the desires of those outside of government. The creation of government may enhance everyone's welfare because government has an incentive to protect the source of its income—its citizens' productive capacity—but the "contract" that creates government is not made because everyone agrees to it or because everyone will benefit. Rather, it springs from the capacity of those in government to force their rule on others.

A Potential Problem with Protection Firms

In an orderly anarchy, potential victims of predation can hire protective firms to help them protect their assets, and these protective firms may try to cooperate with each other, as Rothbard (1973) argues. However, with many competing protective firms, potential problems arise. Firms might prey on their competitors' customers, as competing mafia groups do, to show those customers that their current protective firm is not doing the job and thus to induce them to switch protection firms. This action seems to be a profit-maximizing strategy; hence, protection firms that do not prey on noncustomers may not survive. The problem is even more acute if Nozick is correct in arguing that there is a natural monopoly in the industry. In that case, firms must add to their customer base or lose out to larger firms in the competition.

Cowan (1992, 1994) argues that this tendency toward natural monopoly is accentuated because for protection firms to cooperate in the adjudication of disputes, a single arbitration network is required. This network might be established through the creation of a monopoly protection agency, as Nozick suggests, but even if many firms participate, the result will be a cartel whose members have an incentive to act anticompetitively. For the network to work, it must sanction outlaw firms that try to

11. Not surprisingly, some people prefer even more protection services, so they hire private protection services to augment the government's. Many people, however, rely entirely on the state's protection of their persons and assets.

operate outside the network. The power to sanction competitors reinforces its monopoly position. As Adam Smith notes, “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public” ([1776] 1937, 128). The reasonable argument that protection firms would cooperate to avoid violence and produce justice thus evolves into the argument that such firms would cartelize to use their power for their benefit in a conspiracy against the public.

A more general and therefore more serious threat is that using the assets of a protective firm for both plunder and protection might prove most profitable.¹² A protection firm might use armored vehicles, guns, investigative equipment, and other assets to protect its clients and to recover stolen property or to extract damages from people who violated its clients’ rights. The firm might find it more profitable, however, to use its investigative capacity also to locate assets that can be stolen and to use guns and other weapons to rob people who are not its clients. The mafia, for example, does offer protection for a fee, but it also uses its resources for predation. Profit-maximizing firms with these kinds of assets can be expected to employ them in the dual roles of protection and predation. Otherwise, they would not be maximizing their profits, and they would lose market share to firms that do use their resources in this profit-maximizing way.

Much of the time protection firms must have excess capacity in their role as protectors because they need to be able to respond to violations of their clients’ rights with sufficient force to return stolen property, collect restitution, and otherwise deal with predators. Most of the time they will need to use their resources only to guard and monitor their clients’ property, leaving some of their assets idle.¹³ Absent government, protection firms might want to display their excess capacity to use violence conspicuously, in part to reassure their customers and in part to deter aggressors. They also might use these resources, however, in a predatory manner against nonclients.

This line of reasoning further bolsters Nozick’s argument that the production of protection is a natural monopoly, and it bolsters Cowan’s argument that even if many protection firms remained in anarchy, they would be pushed to cartelize, creating the same result as a monopoly protection firm. If potential customers have to be concerned not only with how well a firm will protect property, but also with the threat that protection firms they do not contract with may take their property, they have even more reason to patronize the largest and most powerful firm. Protection firms do not necessarily offer an escape from Hobbesian anarchy.¹⁴

12. Sutter (1995) argues that in anarchy, power would be biased in favor of protection agencies, which might degenerate into exploitative gangs. Rutten (1999) argues that an orderly anarchy may not always be very liberal because some people or groups might abuse the power they have over others, as the mafia does.

13. Private protection firms under the umbrella of government do not need as much excess capacity because when they detect a violation, their normal response is to call the police to marshal the additional force needed to respond to rights violations.

14. Note also Rutten’s (1999) more general argument that protection firms would tend to abuse their power, much like the mafia, sacrificing liberty in any event.

The Special Case of Protection Services

As noted earlier, one conclusion of the libertarian literature on government production is that private providers can provide more effectively all of the goods and services that government now supplies. This conclusion applies to protection services as much as to any government-provided good or service. As with other goods and services, though, it applies to the market provision of protection services within an economy in which government enforces its rules on all market participants, including protection firms. Economic analysis that shows the effectiveness of markets in allocating resources does so within a framework that assumes that property rights are protected and that exchange is voluntary.¹⁵ Economic theorists from Samuelson (1947) to Rothbard (1962) make the assumption that market exchange arises from mutual agreement, without theft or fraud. In the analysis of protection firms, this assumption of voluntary exchange amounts to an assumption that the industry's output is already being produced—as a prerequisite for showing that it can be produced by the market! As a simple matter of logic, one cannot assume a conclusion to be true as a condition for showing that it is true. This problem makes the production of protection services a special case from the standpoint of economic analysis.

The noncoercive nature of market exchange allows competing firms to enter at any time, regardless of incumbents' market share or market power. Protection firms, however, cannot be analyzed on this assumption because they themselves provide the protection that is assumed to exist in a free market and that underlies the ability to enter the market. If they can protect themselves, the assumption is met; if not, the assumption is violated. In the previous section, I explained why the assumption is likely to be violated. The use of force is an integral part of these firms' business activities, and protection firms have an incentive to use their resources for predatory purposes, which includes keeping competitors from entering the market.¹⁶

In a world dominated by government, how protection firms might behave in the absence of government is a matter of speculation, but in examining the turf wars fought by different mafia families and by rival city gangs, we see a tendency for non-governmental groups to use force to try to eliminate competitors from the market. Some protection firms might shy away from such activity, but, as noted in the previous section, using the firm's resources for predatory as well as protective activities is a profit-maximizing strategy, and protection firms that are not predatory will tend to lose out in the competition with those that are. If protection firms use predatory means to keep competitors from entering, then one of the fundamental (and usually

15. Sutter 1995 shows how asymmetric power can lead to the exploitation of some people in this situation. See also Rutten 1999 on this point.

16. Those who argue that private protection firms would negotiate among themselves to settle disputes are in effect arguing that competitors would not enter the market unless they also entered the dispute-resolution cartel.

unstated) institutional assumptions underlying the demonstration of the efficiency of market activity is violated. This problem makes the provision of protection services different from the provision of most services.

In most industries, firms with market power exercise that power through their pricing decisions, marketing strategies (such as bundling), contractual means (such as exclusive contracts), or other means that involve only voluntary activity on the part of everyone involved. Firms with market power in the protection industry are uniquely in a position to use force to prevent competitors from entering the market or to encourage people to become their customers, simply as a result of the nature of their business.¹⁷ Nozick presents a relatively benign description of how private protective firms might evolve into a minimal state, but in a business where those who are best at using coercion are the most successful, the actual evolution of protection firms into a state may result in a very predatory state.

Government Is Inevitable

In the foregoing arguments, I have maintained that although government may not be desirable, it is inevitable because if no government exists, predators have an incentive to establish one. From a theoretical standpoint, Nozick's argument—that competing protection firms will evolve into a monopoly that then becomes the state—represents one form of the general argument that government is inevitable. Because of the prominence of Nozick's work, I offer no further theoretical defense of it here. More significant, however, as de Jasay notes, "Anarchy, if historical precedent is to be taken as conclusive, does not survive" (1989, 217). Every place in the world is ruled by government. The evidence shows that anarchy, no matter how desirable in theory, does not constitute a realistic alternative in practice, and it suggests that if government ever were to be eliminated anywhere, predators would move in to establish themselves as one by force.¹⁸ One can debate the merits of anarchy in theory, but the real-world libertarian issue is not whether it would more be desirable to establish a limited government or to eliminate government altogether. Economist Bruce Benson notes, "When a community is at a comparative disadvantage in the use of violence it may not be able to prevent subjugation by a protection racket such as the state" (1999, 153). Libertarian philosopher Jan Narveson writes, "Why does government remain in power? Why, in fact, are there still governments? The short answer is that governments command powers to which the ordinary citizen is utterly unequal" (2002, 199–200). Government is inevitable, and people with no government—or even with a weak

17. Of course, other types of firms might try to use force as a competitive tool—for example, by saying, "If you don't deal exclusively with us, we will burn your house down." Such actions, however, lie outside the type of market activity normally incorporated into economic analysis, whereas the use of force is an integral part of a protection firm's business activity.

18. Perhaps the most recent examples of areas effectively without government were Bosnia, Somalia, and Afghanistan in the 1990s, which fell well short of being anarchistic utopias.

government—will find themselves taken over and ruled by predatory gangs who will establish a government over them.¹⁹ As de Jasay observes, “An anarchistic society may not be well equipped to resist military conquest by a command-directed one” (1997, 200). People may not need or want government, but inevitably they will find themselves under government’s jurisdiction.²⁰

Some Governments Are More Predatory Than Others

All governments were established by force and retain their power by force, but some are more predatory than others. Governments can take more from their citizens than can bandits or mafias because of their superior organization, but their advantage in part requires them to be less predatory. Bandits can plunder everything people have, but then nothing more will be left to take, and people will have little incentive to produce more if they believe that another complete plunder awaits them. Bandits must move from victim to victim, using resources to find victims and forcing them to surrender their wealth. Governments can remain in one place, continually taking a flow of wealth from the same people, often with their victims’ cooperation and assistance. If governments nurture their citizens’ productivity, the amount of their takings can continue to increase over time. It then becomes increasingly important for government to protect its source of income from outside predators, so the production of protection serves the self-interest of those in government as well as the interest of the mass of citizens.

The longer the government’s time horizon, the less predatory it will be.²¹ If a government takes over by force but believes that it will rule for only a limited time before another gang of predators forces it out, then it has an incentive to take everything it can while it still has the power to do so. This incentive will obtain especially if the rulers are unpopular with the citizens and therefore cannot count on the citizens for support. Governments imposed on people from the outside are likely to be especially predatory, which gives citizens an incentive to form their own government preemptively to prevent outsiders from taking over.

19. Much has been made in libertarian literature of the case of Iceland from about A.D. 800 to 1262. For the historical details, see D. Friedman 1979. Yet this example ended nearly 750 years ago, and it existed in a world much different from the modern one. Iceland was remote, given the transportation technology of the day, it was poor, and it had an undesirable climate, making it an undesirable target for predators. Nevertheless, a government was eventually established from the inside.

20. This argument is aimed at libertarians and takes a libertarian perspective. Libertarians should keep in mind, however, that the overwhelming majority of people, if given the choice, would choose government over anarchy, and a substantial number of people would like a bigger and more powerful government than they have today.

21. Levi 1988 discusses the effect of the rulers’ time horizon and other factors on the degree to which they act in a predatory manner. Hoppe 2001 argues that monarchy is superior to democracy because political leaders have a longer time horizon.

If a group of outside predators establishes itself as a government, it will have every reason to keep most of the surplus for itself, in part because the people in the predatory group care more about their own welfare than they do about the welfare of the people they rule. Moreover, the conquered group probably will resist takeover by the predators, creating ill will between the conquerors and the conquered. If government is inevitable, and if some governments are better than others, then citizens have an incentive to create and maintain preemptively a government that minimizes predation and is organized to preserve, as much as possible, its citizens' liberty (Holcombe forthcoming).

Can Government Preserve Liberty?

The arguments developed here frame a challenge to the idea that a minimal state can be designed to preserve liberty. If government is simply a matter of the strong forcing themselves on the weak, it should not matter whether citizens want to create a limited government to protect their rights because in the end those who have the most power will take over and rule for their own benefit. That threat is real, and a brief examination of political history shows many examples. One example is the 1917 Russian Revolution that created the Soviet Union. Other examples include China and eastern Europe after World War II and many African nations at the beginning of the twenty-first century. Likewise, limited governments such as the U.S. government created in 1776 and the British government in the nineteenth century became less libertarian and more predatory in the twentieth century. Limited governments may not remain limited, and any government constitutes a standing threat to liberty. A challenge to advocates of a minimal state is to explain how people can create and sustain preemptively a liberty-preserving government.

The historical record also offers some basis for optimism that government's predatory impulses can be controlled. History shows that oppressive governments can be overthrown, as they were in eastern Europe after the collapse of the Berlin wall in 1989, and that even when they are not overthrown, pressures from their citizens can result in less-predatory states. One would not want to hold Russia and China up as examples of libertarian governments, but they do exemplify governments that have reduced their oppression and increased individual liberty. Governments can become less predatory. Even though the U.S. government has been firmly entrenched for two centuries, it is less oppressive than many other governments, notwithstanding that it has become more predatory over time. Thus, the evidence is that the worst thugs do not always seize and maintain power, and even when they do, reversals toward liberty are possible. In light of this experience, it should be possible to identify the factors that make governments less predatory. Such factors fall into two general categories: economic and ideological.

The economic incentives are relatively straightforward. There are net gains from establishing a less-predatory government. Gwartney, Holcombe, and Lawson (1998)

have shown that countries with lower levels of government spending have higher incomes and faster economic growth, and in examining economic freedom more broadly Gwartney, Lawson, and Holcombe (1999) have shown that less government interference in all areas of an economy leads to greater prosperity. Olson (2000) examines the political conditions under which less-predatory governments can be established, and a substantial body of work follows up on Olson's ideas to promote less-predatory and more market-oriented governments (Azfar and Cadwell 2003; Knack 2003). If less-predatory governments mean more production, then potentially everyone can gain from replacing more-predatory government with less-predatory government.

Leaders of predatory governments, however, may do better by preserving the status quo, and they may generate sufficient political support by promoting a national ideology (Edelman 1964; North 1981, 1988) or by intimidating potential rivals (Lichbach 1995; Kurrild-Klitgaard 1997) in order to maintain power. As Olson (1965) explains, even if most people believe that they would be better off with a less-predatory government, they have an incentive to free ride on others' revolutionary activities, which limits the possibilities for change. Kurrild-Klitgaard (1997) notes, however, that some incentives for revolutionary action remain. Moreover, revolution is not the only option. Just as government in the United States has grown by small steps, a gradual contraction of government's scope and power also may be brought about. The demise of the eastern European dictatorships after the collapse of the Berlin Wall in 1989 shows that changes can happen with surprising speed. This development points toward the second factor: ideology.

In a famous passage of *The General Theory of Employment, Interest, and Money*, John Maynard Keynes emphasizes the power of ideas: "Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas" (1936, 383). The American Revolution of 1776 was strongly supported by an ideology of freedom (Bailyn 1992; Holcombe 2002a), as was the fall of the European eastern bloc dictatorships after 1989. At the beginning of the twenty-first century, citizens of governments throughout the world are increasingly coming to accept the libertarian ideas of Mises, Hayek, Friedman, Rothbard, and others.

Together, economic and ideological forces are now creating an environment more conducive to the advance of liberty than the environment of the twentieth century. From an economic standpoint, the connection between freedom and prosperity has become universally recognized. Through most of the twentieth century, the conventional wisdom held that a government-controlled economy would be more productive than a market economy, an idea that persisted until the collapse of the

Berlin Wall in 1989. Economic realities have not changed, but the generally accepted economic view of freedom has. In the twentieth century, the conventional wisdom held that more freedom came at the cost of a less-productive economy. In the twenty-first century, the generally accepted view is that freedom brings prosperity. From an ideological standpoint, the academic scribbler who had the largest influence on the twentieth century was probably Karl Marx, whereas at the beginning of the twenty-first century the ideas of Mises, Hayek, and Friedman have found greater popular acceptance.

A minimal libertarian state would require strong ideological support from its citizens, and both economic and ideological factors are turning in the direction of liberty. As Jeffrey Rogers Hummel says of libertarian ideology, “Although we may never abolish all states, there is little doubt that we can do better at restraining their power if only we can motivate people with the will to be free” (2001, 535).

Government and Liberty

History has shown not only that anarchy does not survive, but also that some governments are better than others. Therein lies the libertarian argument for a limited government. People benefit from an institutional mechanism to prevent their being taken over by a predatory gang. They can provide this mechanism by preemptively establishing their own limited government, in a form they themselves determine, not on the terms forced upon them by outside predators. A government created by the people themselves can be designed to produce the protection they desire while returning to them the bulk of the surplus owing to peaceful cooperation rather than allowing the state to retain it.

Is it really possible to design a limited government that will protect people’s liberty? Despite the challenges, it is well-known that some institutional arrangements do a better job of securing liberty and creating prosperity than others. Nations that have protected property rights and allowed markets to work have thrived, whereas nations that have not done so have remained mired in poverty.²² A libertarian analysis of government must go beyond the issue of whether government should exist. Some governments are more libertarian than others, and it is worth studying how government institutions can be designed to minimize their negative impact on liberty. This proposition is obviously true if one believes that government is inevitable, but even advocates of orderly anarchy should have an interest in understanding how government institutions can be designed to maximize their protection of liberty.

Many writers have noted that limited governments usually tend to expand their scope once established, perhaps suggesting that limited governments, once established, cannot be controlled (Olson 1982, 2000; Higgs 1987; Holcombe 2002a). Neverthe-

22. Landes 1998 considers the historical evidence and makes a powerful case for this connection.

less, in the real world, some governments are less oppressive and closer to the libertarian ideal than others. The United States, with one of the oldest governments in the world, remains one of the freest nations, so clearly it is possible to preserve a degree of liberty, even if the situation does not approach the libertarian ideal. In any event, if government is inevitable, there is no real-world libertarian alternative but to work to make government more libertarian. Although ideas have been advanced as to how institutions might be redesigned to lessen government's coercive activities (for example, by Tucker 1990; Anderson and Leal 1991; Holcombe 1995; Holcombe and Staley 2001), there may be no final answer to the question of how to design the ideal government because any innovations in government designed to protect the rights of individuals may prompt offsetting innovations by those who want to use government for predatory purposes. The preservation of liberty will remain a never-ending challenge.

My argument may convince some readers that limited government is necessary to preserve liberty—to protect citizens from being taken over and ruled by a predatory government much worse for their liberty than a government they design themselves. Others may believe, despite the arguments presented here, that libertarian anarchy remains a feasible and desirable alternative. In any event, my arguments point to a different direction for the debate between libertarian anarchists and libertarian minarchists.²³ Both groups agree that government is not necessary to produce public goods or to correct externalities or to get people to cooperate for the public good—that private parties can undertake voluntarily and more effectively all of the activities undertaken in the public sector. The libertarian issue regarding government is whether a society with no government has the means to prevent predators from establishing one by force.

Rothbard (1973) argues that an anarchistic society can resist such predators, whereas Nozick (1974) and de Jasay (1989, 1997) argue that anarchy will not survive. However, most of the arguments supporting a libertarian anarchy have been framed in terms of whether private arrangements can replace government activities. Whether private arrangements are superior to government activity, however, is largely irrelevant.²⁴ Government is not created to produce public goods, to control externalities, or to enforce social cooperation for the good of all. It is created by force for the benefit of its creators. The libertarian argument for a minimal government is not that government is better than private arrangements at doing anything, but that it is necessary to prevent the creation of an even more predatory and less-libertarian government.

23. Although I argue that libertarian anarchy is not a viable alternative, I do not mean to suggest that the libertarian anarchist literature has no merit. In fact, this literature has made valuable contributions in two broad ways. First, it has shown the viability of market institutions in areas where the mainstream literature argues the necessity of government, thus making significant advances in our understanding of both markets and government. Second, it helps promote the libertarian ideology required to rein in the power of predatory government.

24. My argument also suggests that claims that government is immoral (as in Rothbard 1982) are not relevant to the issue of whether people should have government. If government is inevitably imposed on them by force, they have no choice.

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