

A Role for Government?

Nicholas Capaldi

Legendre-Soule Distinguished Chair in Business Ethics

Loyola University New Orleans

New Orleans, LA, USA

Abstract

One of the most salient features of Austrian economics is its critique of government. It is important, however, to distinguish the constructive critique of government from the endorsement of anarchism (no-government view). I not only wish to concede but I want to endorse and to commend Austrian economists for their constructive critique. In short, Austrian economists are right about 99% of the time, but it is the 1% where they are wrong that could prove to be the Achilles heel of Austrian Economics and a free society. In the remainder of this paper I shall concentrate only on raising objections to the anarchist position, and I shall do so by appeal to the works of one Austrian economics' founders, Ludwig von Mises.

Paper

To begin with I want to question the status of anarchism. It is not a description of the world we live in. Governments abound. *My first claim then is that anarchism is empirically deficient.* It fails to capture an obvious truth about the world.

So, the advocacy of anarchism has to have some other status. What is it? Anarchism is a political ideology. *My second claim is that anarchism is a disguised form of utopian politics* (Mises, 1996, pp. 70-71.)

An ideology is an abstract principle which has been independently premeditated. It supplies in advance of the historical facts a formulated end to be pursued, and in so doing it provides a means of distinguishing between those desires which ought to be encouraged and those which ought to be suppressed or redirected. In this sense, anarchism is a normative position. 'Freedom', 'Equality', 'Racial Purity', and 'No coercion' are examples of political ideologies reduced to a single abstract idea. To be educated into this ideology is to be taught how to expound, defend, and implement the ideology.

Despite its claim to be premeditated, the content of an ideology is always drawn from a previous practice. In this case, the ideology of anarchism is drawn from a specific form of economic activity. What 'Austrian' anarchism is based upon is the economic activity of a more or less free market economy operating in the modern world under a system of the rule of law.

What anarchism purports to maintain is that what was previously carried out under the aegis of politics can now be accomplished through market activity alone. *My third claim is that anarchism has mistakenly generalized from economics to politics. It misunderstands the nature of politics.* We shall have more to say later on what constitutes politics.

Anarchists believe that the complexities of the historical tradition within which such markets have functioned can be squeezed out of the process of abridging the account of economic activity. Making voluntary agreements and shunning force can be understood to exist insulated from the larger context. *My fourth claim is that anarchism mistakenly presumes that a specific subset of economic activity can be understood independently of the historical context from which it has been generated.*

No human activity, including economics and politics, can be understood independently of its history. There are no valid timeless abstract accounts of human action. In this sense the so-called social sciences are bogus intellectual enterprises. They inevitably are led to construct a kind of social technology (economic planning) based on this alleged social science. I take it that Hayek and Mises would agree with this point. Marxism, socialism, and neo-classical economic positivism are all deficient on this account.

Politics is the activity of *attending* to the general arrangements of a set of people with a history. In a modern state it takes the form of a monopoly on the legal structure. We understand a practice by explicating the norms inherent in a practice.

Political practice is immanent, that is, it is the amendment of existing arrangements by exploring and pursuing what is *intimated* in them. No understanding or account of politics, no matter how adequate, entails any practical consequences. In other words, the practice cannot be reduced to a set of rules. The norms cannot be accessed as a permanent sub-structure (hence the futility of social science); and the norms can never be definitively explicated but are fertile sources of adaptation (an inheritance does not entail its future development) [Wittgenstein on rules].

To the extent that anarchists claim that there should be no government activity, they are deriving a rigid policy from their account. A plan to resist all regulation is no doubt better than its opposite, but it is still a rigid plan! To the extent that anarchists derive rigid political policies from their account, they *misunderstand the relation between political theory and political practice. This misunderstanding is my fifth claim.*

My argument up to this point can be summarized as follows:

- (a) Austrian Economics anarchism has a deficient political economy.
- (b) The deficiency reflects both a misunderstanding of the status of economics, and
- (c) a misunderstanding of politics.

We cannot understand free market economics independent of a specific historical politics, namely, the rule of law that exists in a civic association in which there is no collective good. Politics is thus more fundamental than economics. This doesn't mean that

political scientists know more than economists or that planned economies are justified; what it means is that (1) Economics presupposes a particular political context. “The imaginary construction of a pure or unhampered market economy assumes....assumes that the government, the social apparatus of compulsion and coercion, is intent upon preserving the operations of the market system, abstains from hindering its functioning, and protects it against encroachments on the part of other people.” (Mises, 1996, pp. 237-38.) (2) The arrangements with which politics deals are not exhausted by economic ones. (3) Public policy is not and cannot be based simply upon economic truths however “true” or important those truths are. (4) This does not deny the value or validity of public choice analyses or critiques of politics, but you do not have to be an economist to see this.

Anarchism can be disastrous as a practice.

(a) To begin with, because it is committed to a rigid doctrine of no-government activity, it cannot recognize the validity of some intellectual property rights such as patents, even when there is an economic efficiency advantage.

(b) Second, the advocacy of an open-borders immigration policy (again, on the rigid doctrine of no government) fails to recognize the extent to which such a policy might lead to opening the flood gates to masses of people who will predictably vote for political parties that are interventionist. This related to another failing, failure to see that some people are not culturally ready to participate in a market. No consideration is given to the question of how to prepare the unprepared for freedom. In this respect it mirrors the

Marxist failure to provide a post-revolutionary theory or account of exactly how things are going to work. Marxism, of course, is analogous to anarchism in being a utopian ideology.

(c) Third, by opposing the draft and war, again on the rigid no-government doctrine, AE anarchists may fail to defend those few political entities in which free markets are respected and cherished.: “If the principles of a free market were acknowledged by all people all over the world, there would not be any reason to wage war....But as conditions are in our age, a free national is continually threatened by the aggressive schemes of totalitarian autocracies. If it wants to preserve its freedom, it must be prepared to defend its independence. If the government of a free country forces every citizen to cooperate fully in its design to repel the aggressors...it does not impose upon the individual a duty that would step beyond the tasks the praxeological law dictates.” (Mises, 1996, p. 282. See also p. 685.)

The major threat to a free market comes not from our domestic government but from an array of historical and cultural factors that impede the full flowering of globalization. In a Global economy, the role of government in enforcing the rule of law becomes especially important. In short, anarchist arguments which may have some limited validity in a domestic context have even less in a global context.

(d) Fourth, AE anarchism, despite its pretension to being ahistorical, is still mired in an old-fashioned conception of the relationship between government and the market

economy. Historically, it has been important to see the threat of government to free markets both in the early stages of the industrial revolution and in the recent cold-war domestic debate about planning. But, free marketers have, in principle, won that debate! There is an evolving nature of the relation among for-profits, non-profits, and government. One direction that evolution is taking is the devolution of government responsibility into privatized services. One example would be the school vouchers. Privatizing the schools will not be accomplished merely by presenting good arguments, although they will help; it will happen through constructive political activity.

(e) Fifth, AE anarchism fails to recognize the extent to which the growth of a free market economy has been one of the causes for the growth of democracy, and how democracy in a culture with many non-autonomous citizens becomes a threat to the free market. It would behoove us to enlist for-profits non-profits to help non-autonomous citizens to become autonomous and thus able both to profit from and to endorse a free market economy.

(f) Finally, as both St. Augustine and John Locke made clear centuries ago, part of the reason for politics is the existence of the bad guys. “The anarchists overlook the undeniable fact that some people are either too narrow-minded or too weak to adjust themselves spontaneously to the conditions of social life....An anarchist society would be exposed to the mercy of every individual. Society cannot exist if the majority is not ready to hinder, by the application or threat of violent action, minorities from destroying the social order. This power is vested in the state or government.” (Mises, 1996, p. 149).

I would suggest that part of the endorsement of anarchism is the inability to come to terms with both malevolent and self-destructive impulses because of an implicit mistaken belief that *homo economicus* captures the truth of human nature. Mises recognized this long ago (Mises, 1927). Mises endorsed classical liberalism which he understood to be a political-economic position.

Given this blind spot, AE anarchism fails to recognize this danger as Adam Smith did when he warned that businessmen rarely get together except to collude against the public. Consequently, when threats to the stability of financial markets like Enron occur, the anarchists will pour an immense amount of effort into showing how post-scandal regulation will be counter-productive; of course, their arguments are correct but we get the regulation anyhow. If AE anarchists recognized the inherent existence of evil, they might more profitably formulate arguments for self-policing of industries and professions before the scandals occur. AE anarchism consistently misses opportunities to urge constructive action before government regulation becomes a *fait accompli*.

It is time to stop fighting the old wars and to move on to much more constructive free market activity.

References

Mises, L. ([1927] 2005). *Liberalism in the Classical Tradition*.

<http://www.mises.org/library/liberalism-classical-tradition>

Mises, L. ([1949] 1996). *Human Action*. Indianapolis: Liberty Press.