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Innovation is a Spontaneous Order

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Abstract: Viewed from the market failure perspective, the order of the innovation process is a planned rational order—a taxis. However, from the theory of market process, innovation is a spontaneous order—a cosmos. How one understands the order of innovation thus turns on priors of the order of markets. This paper proposes five new arguments for the order of innovation, none of which derive from a theory of markets. All five further develop the spontaneous-order view of innovation. These are: (1) science as a spontaneous order; (2) new business models; (3) co-operation in developing technologies; (4) clusters and innovation externalities; and (5) copying processes and local adaptation.

Keywords: innovation policy, innovation process, economic co-ordination, knowledge problem

INTRODUCTION

Let spontaneous order refer to Adam Ferguson’s definition: ‘a result of human action, but not of human design’ (Barry, 1982). A spontaneous order is closely related to Hayek’s (1976) notion of a catallaxy, or what complexity theorists call self-organization (Colander et al., 2011), although these are not equivalent concepts. In this way Hayek (1973, Chapter 2) distinguished between taxis (planned order, human action and human design) and cosmos (spontaneous order, human action but not design). To say that innovation is (largely) a cosmos is to say that it is (largely) the result of human action but not of human design.

The unaided human mind, operating instinctually, tends to see all order as taxis, as the product of deliberate design, intention and organization. For several hundred years, and certainly since the Scottish Enlightenment of Ferguson, Lord Kames, David Hume (on knowledge) and Adam Smith (on markets), and subsequently on through Charles Darwin (on species), Carl Menger (on money), and so on, the deepest and most significant insights of biological and social science have come from an unfolding recognition that more and more phenomena that were thought to be designed orders (taxis) are actually spontaneous orders (cosmos).

There are consequences to such reclassification, because once we understand a phenomenon to be the product of self-organization, we ask different questions of it (how did it form? How does it stabilize? Is it robust?). Moreover, we treat it differently. Specifically, we are far more cautious in seeking to intervene in its workings and more humble in attempts to redesign it (Hayek, 1988). So it matters whether something is classified as a spontaneous order or not. I argue in this paper that we should seek to reclassify innovation as a spontaneous order.

I adopt the standard definition of innovation as the process by which new ideas—whether as new goods or services or as new ways of doing things—are introduced into and spread throughout the economic system (Rogers, 1995). Innovation refers to the discovery and application of useful knowledge (Ziman, 2000), which has the effect of changing the economic order from within. Joseph Schumpeter (1943) famously described this basic dynamic mechanism of market
capitalism as a process of ‘creative destruction’ (Beinhocker, 2005).

In modern economics, there are two distinct perspectives on innovation. These derive from two different models that connect innovation and markets. In the first model, innovation is effectively an extension of the market process (Buchanan and Vanberg, 1991), that is, a form of competition between entrepreneurial firms (Witt, 2013). The order of innovation supervenes on the order of the market process so that to the extent that the institutions of the market process produce spontaneous order, so they also produce innovation. A cosmos view of markets gives rise to a cosmos view of innovation.

In the second view, the innovation problem is equivalent to the market failure problem in the production of new ideas (Nelson, 1959; Arrow, 1962). Without mechanisms to correct this market failure, from a social welfare perspective innovation will be underprovided in the market. To overcome market failure, innovation requires designed institutions and policy mechanisms to guide the structure of innovation incentives and systems. The taxis view of markets gives rise to a taxis view on innovation.

Some stylized differences between the planned view of innovation as correcting market failure (broadly a Schumpeterian story, coupled to the theory of innovation systems) and the self-organizing view of innovation as arising from the market process (broadly a Hayekian story, coupled to Austrian economics) are summarized in Figure 1 below.

As we see, these turn on different points of emphasis with arguments derived from different perspectives on how markets work. For instance, the planned innovation model emphasizes market failure arising from incentive problems and resolved with imperfect competition and the creation of rents. The self-organizing model is built around knowledge and uncertainty problems and is resolved with competitive rivalry and profit seeking. There are different perspectives on the nature of innovating firms, the types of innovation finance, the entrepreneurial function, the nature of knowledge, and the dynamics of investment and business cycles. Ultimately, these translate into very different approaches to policy: with the planned model favouring direct intervention (intellectual property, industrial policy, public goods creation) and systemic approaches (innovation systems); whereas the self-organizing model tends to get by with effective market institutions and competition policy. The upshot is that the most effective approach to innovation policy is determined by one’s priors about the effectiveness of the market process or otherwise in the production of new ideas.

<table>
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Figure 1: Two views on innovation

But the case for innovation as a spontaneous order becomes stronger once we step away from the market process/market failure dichotomy and look at other models of innovation as a growth-of-knowledge process. I will suggest here five distinct mechanisms that are not tied to market institutions per se, but to broader conditions of economic liberty. These spontaneous order aspects of innovation are:

1. Science (congruence with)
2. Business models (their emergence & evolution)
3. Co-operation (sharing & pooling of knowledge)
4. Clusters (spatial emergent order)
5. Copying (temporal emergent order)
FIVE THESES ABOUT INNOVATION AS COSMOS

In the cosmos view of innovation, design and intention over the creation of new ideas, technologies and industries are less important than we might have previously thought. These outcomes are the result of human action, but not of human design. A taxis view of innovation is comforting to the human spirit and to our own sense of collective power and control, and can be observed in the call for global efforts in developing new, say, energy or communications technologies, or in regulating the technological development of whole industries or sectors. But this presumption of the global ability to plan and guide innovation is far from self-evidently true: to a considerable extent, innovation is an emergent process beyond the designs of individual minds.

It is not unreasonable to observe that the cosmos perspective on innovation—in which the most important factors governing ‘the wealth of nations’, namely, new ideas and innovation, are placed beyond the gamut of human expertise and intention—can be just as unsettling to denizens of the 21st Century as Charles Darwin’s Origin of Species was to his 19th Century contemporaries. It implies that we are not in control (or that no one is in control) of our collective destiny as shaped by new technologies and innovation. Yet the notion that innovation is a spontaneous order is equivalent to the claim that innovation is an open, complex self-organizing system with a fundamentally unpredictable future (Popper, 1972).

The market-based arguments for innovation as a spontaneous order turn on aspects of the growth of the market driving increased division of labour and specialization, an argument that goes back to Adam Smith in the Wealth of Nations, that then feeds back into an increased scope for recombination of ideas and of spillovers and increasing returns (called ‘external economies’ by Alfred Marshall). These dynamic mechanisms can explain why innovation can have emergent or unintended consequences due to market mechanisms and feedback. However, there are other mechanism that can also contribute to the spontaneous order of innovation, five of which I will outline in this paper. These are: (1) the extension of the case for science as a spontaneous order; (2) the discovery of connections between technologies and opportunities, resulting in new business models; (3) co-operation in developing technologies through the sharing and pooling of ideas; (4) clusters and spatial self-organization related to innovation externalities, and (5) copying processes by which good ideas replicate through an economic order, adding variation and local adaptation.

2.1 Like Science

The work of Michael Polanyi and others (Ames, 1989; Lavoie, 1989) explain how the institutions that generate the order of science generate a spontaneous order. I want to propose that the same line of argument applies to innovation. Science and innovation are of course different: they are done by different people; for different reasons; under different institutions, and through different organizations and practices. Yet there are also important similarities. Both involve rules, and ways of breaking those rules. Both involve creating and testing new ideas and a process by which successful new ideas are subsequently adopted and retained. Both involve substantial uncertainty and require individual agents to form a model of the world that they then seek to test. Both are partially experimental, partially theoretical operations that involve reason and experience. But the main point is that the arguments that science is necessarily an open-ended, decentralized, adaptive, rule-governed process—a cosmos not a taxis—also apply to innovation, and for the same reasons, namely that they are both growth-of-knowledge processes (Loasby, 1999; Ziman, 2000).

It was Michael Polanyi (1941; 1962) who first developed this argument with respect to science as a cosmos. Polanyi sought to explain the efficacy of independent, free inquiry in science, and the dangers of centralized control in the public interest by comparing it to the operation of the market process (Mäki, 1999; Jacobs, 1999; Butos and Koppl, 2003). For Polanyi, the progress of science depends on a ‘truly deeply open conversation’.

Polanyi’s 1941 Economica article in many ways anticipated the arguments Hayek (1973; 1978) later made in respect of the two modes of order of cosmos and taxis. Polanyi (1941, 433) wrote of ‘order by spontaneous mutual adjustment’ or ‘dynamic order’, versus ‘planned order’ and of ‘the two alternative and opposite methods of achieving order—by limiting the freedom of the particles, or by giving full scope to their interactions. Indeed, Polanyi offered a broad conception of spontaneous order in which the ‘republic of science’ and the institutions of the market are both special cases of this more general phenomenon. Of science, Polanyi argued that: (1) In freely pursuing their own choice of problems, scientists are in fact co-operating; (2) that the principle of their co-ordination consists in the adjustment of the efforts
of each to the hitherto achieved results of the others; and (3) that such self-coordination of independent initiatives leads to a joint result that is unpremeditated by any of those who bring it about. These same arguments can also be claimed of innovation as an ultimately co-operative endeavour in which co-ordination is achieved through interaction and feedback, and does not require an overarching design or plan.

Polanyi did not argue that the order of science is like the order of a market. He sought a more general point: that both of these orders were themselves instances of a more general dynamic principle of co-ordination—or constitutional rules—governing the operations of a free society. Polanyi writes that:

For in the free cooperation of independent scientists we shall find a highly simplified model of a free society, which presents in isolation certain basic features of it that are more difficult to identify within the comprehensive functions of a national body. (Polanyi, 1962, 54)

He further explains:

This suggests a generalization of the principles governing the Republic of Science. It appears that a society bent on discovery must advance by supporting independent initiatives, coordinating themselves mutually to each other. Such adjustment may include rivalries and opposing responses which, in society as a whole, will be far more frequent than they are within science. (Polanyi, 1962, 66)

Here, Polanyi is arguing that the discovery of knowledge, and by implication any society that is built around such endeavours, as ours most surely is, requires a special type of co-operation and co-ordination in which individuals are free to pursue their own interests, and that an order of ‘fair’ rules keeps the competitive rivalry honest and engaged. Under these conditions—that approximate a knowledge commons (Ostrom and Hess, 2006)—pooling and sharing information can occur, thus promoting individual adaptation and the growth of knowledge.

Polanyi was writing against the Cold War British government’s plans to harness scientists to a centralized agenda: he was arguing against a taxis of science. But this same line of argument extends to centralized innovation policy. He argued that any centralized conception meant that science would proceed based only on information available to all, or information that could be communicated to the centralized experts—akin to Hayek’s (1945) critique of the information requirements of central planning. Polanyi thought that this was a poor use of the distributed information in the ‘Republic of Science’; while the centralization might seemingly function for a short duration, Polanyi worried about the consequences of centralization once the specific problems became exhausted. Specifically, Polanyi worried that ‘in the absence of further information about the results achieved by others, new problems of any value would cease to arise, and scientific progress would come to a standstill’ (Polanyi, 1962, 54). Polanyi thus explained how the co-ordination process occurs as ‘coordination by mutual adjustment of independent initiatives’ [italics added] or of ‘the adjustment of the efforts of each to the hitherto achieved results of the others’ (Ibid.).

Polanyi’s argument turned on the significance of tacit knowledge (as outlined in his book Personal Knowledge), which became the lynchpin in his argument that science could not be centrally planned. As Philip Mirowski has further elucidated:

Since tacit knowledge was intrinsically dispersed throughout the community, and could only be passed along piecemeal through a socialization process inculcating a particular personal commitment, there could never be any effective rationalization or codification of the process of research. (Mirowski, 1997, 134)

This is why Polanyi argued that scientific research was necessarily co-ordinated by a process of mutual adjustment; in science ‘by taking note of the published results of other scientists’ while in markets by ‘mutual adjustment through a system of prices’ (Polanyi 1969, 52). Innovation involves both kinds of mutual adjustment. Agents pay attention to the results and findings of others, so there is social learning. Additionally, agents pay attention to price signals, so there is market learning. Both social learning and market learning are powerful and efficient carriers of information and knowledge.

Indeed, many others have made similar arguments, even when building from different starting points. The psychologist George Kelly (1955) wrote of the scientist as a model of human action, particularly in the face of novelty. George Shackle (1972), Brian Loasby (1999), and Peter Earl (1986) applied similar ideas in respect of the growth of knowledge under bounded rationality and uncertainty. Gus diZerega (2012) explains how Thomas Kuhn and John Ziman argue
that science is a spontaneous order for the discovery of reliable knowledge. Terrence Kealey (1996) has argued that there is essentially no evidence that science benefits from centralization, and a great deal that it doesn’t. He claims that not only does science and scientific research work as a spontaneous order, but that it works best that way. None of these are specifically ‘mainstream’ arguments, but they are plausible and coherent reasons to understand science and innovation as emergent orders.\(^3\)

### 2.2 Business Models

A business model is the way in which a particular idea is exploited as an economic opportunity (Teece, 2010). A business model refers to the particular ways in which value is created and extracted, relating to the definition of the market, the scale and scope of the firm, to valuable assets and particular scarcities. Business models tend to be deeply connected to a particular institutional, technical and behavioural milieu. It is increasingly argued that business models not only change with economic evolution but also are key dimensions and aspects of that process. New business models are planned and designed at the micro level, and are entrepreneurially experimented with in markets, but new business models also emerge at the meso level in consequence of evolutionary selection processes, market feedback, and differential copying (Dopfer and Potts, 2008). Business models are therefore part of the cosmos of innovation; as part of an industrial ecology, they emerge.

Business models co-evolve with technologies (Beinhocker, 2006). It is hard to observe business model evolution because the successful models are usually only apparent \textit{ex post}, once market processes have played out and structures of complementarity have been revealed. Moreover, once a set of opportunities becomes a recognizable industry, its business models will often have matured or normalized to the point that they are the standard ways of doing things, which are revealed only when disrupted (Christenson, 1997). That business models change and evolve is less widely appreciated than similar arguments that technologies or institutions change and evolve (Arthur, 2011). But from an experienced perspective it should be equally obvious. Entrepreneurs are of course at the forefront of this evolutionary trajectory, because new technologies often not only require new business models but can also enable new business models: in other words, entrepreneurship can consist entirely of new business models (Baumol, 1990). A new business model is not required for all innovation. There are many instances within the unfolding of a technological trajectory (Dosi, 1982) where a new product is produced, marketed, and consumed in a similar way to earlier innovations (think of the innovation of shampoo, then of conditioner, which follows with the same business model). But some innovations not only require but are effectively defined by a new business model.\(^4\) Open business models are a further example (Chesbrough, 2006).

Business models evolve and the discovery of new business models matters because business models are really just another form of technology, or institution (Nelson and Sampat, 2001). This evolutionary process seems best described by a punctuated-equilibrium framework, with periods of stasis punctuated by periods of rapid change; but this is hard to tell given the paucity of research on business models in both industrial and long-run economic dynamics. But this then raises the question of how we arrive at the best, most optimal business models? Or perhaps better, how do we avoid arriving at the worst?

One answer is that we design them. We plan and control business models in relation to revealing the possibilities of an innovation, making use of expertise and regulation to program the best solutions. This is the \textit{taxis} model of business models and innovation. But another answer is that we grow and evolve them, making use of entrepreneurial variation and market selection over various elements and their relative success and adoption. This is \textit{cosmos}, in which business models emerge through the distributed actions and interactions of people, technologies and institutions. Business models evolve through entrepreneurial variation and market selection, and as Beinhocker (2005) effectively argued, they are a core mechanism and dimension of the technology of economic evolution. In a micro sense business models are designed by individual firms. But in a meso/macro sense, business models are evolved through interaction effects and the emergence of what Arnold Kling (2011) calls ‘patterns of sustainable specialization and trade’.

Because individual firms (manifestly) design or choose their business models, there is an aggregation fallacy in the inference that the business models that exist, as adapted to an innovation, are also designed, or that this is co-extensive with the institutions that support them. Yet this is almost certainly false. Business models and innovation are in effect a co-joint spontaneous order.

But for those seeking to preserve the status quo, new business models are sometimes easier to fight than new technology. One of the problems with large monopolistic enter-
prises is that they can monopolize a business model, and this can act as a *de facto* form of protection against other forms of innovation. A business model supports a prior innovation against competition from a new innovation that may require a new business model. Large monopolized firms can sometimes protect business models more easily than they can protect technologies, but the net effect is the same. Innovation usually involves new business models, and these new business models are part of the *cosmos* of innovation, as an emergent outcome.

### 2.3 Co-operation

In the standard economic model of ‘Schumpeterian competition’ (Metcalfe, 1998), or in the ‘patent race’ model of competitive industrial innovation dynamics (Loury, 1979; Grossman and Shapiro, 1987), firms compete through innovation. It is an entirely orthodox economic proposition to argue that forces of competition shape and drive innovation (Aghion *et al.*, 2005). The result is that a spontaneous technological and market order emerges under competition.

A similar argument can be made about the forces of co-operation (cf. Cowen and Sutter, 1999). When dealing with the fixed costs of experimentation and development, emergent co-operation can facilitate information pooling and feedback, generating the potential for new ideas to emerge and develop through social learning (Potts, 2013). Co-operation can drive innovation as much as competition, and in a similarly emergent way.

First, co-operation is essential to innovation because innovation is essentially about making and discovering new connections between things. Second, co-operation in such collective action problems was previously thought to be highly unstable because of free-rider problems, yet much new research suggests that co-operation is actually far more likely to evolve and emerge than previously recognized (Nowak, 2006, 2011).

There is a growing recognition that the early phases of any new technology are a surprisingly collaborative space. Ostrom and Hess (2006) characterize this as a ‘knowledge commons’ and Potts (2012) calls it an ‘innovation commons’. Peterson (2012) argues that the industrial revolution can be understood as part of this same process of improved co-operative outcomes driving knowledge discovery. The new body of interdisciplinary work on open source production of knowledge and innovation supports this theme (e.g. Benkler, 2008).

Specifically, co-operation is more evolutionary stable than has been previously recognized (Boyd *et al.*, 2010). This is in part due to the economics of asymmetric information and uncertainty. Where competitive information is socially embedded—so that market information and technical information are intertwined—in agents might invest in assets or engage in costly behaviours that signal co-operation in order to access new information and associated innovations.

Co-operation cannot be forced and often works best under rule-based governance (Ostrom, 1990). Co-operation is thus often a type of spontaneous order. This connection has not been widely made in the innovation literature. Still, new theoretical perspectives seek to develop the evolutionary theory of co-operation (Nowak, 2006; Bowles and Gintis, 2011) and this can be extended to the theory of innovation.

### 2.4 Clusters

Innovation can also be understood as a *cosmos* through its spatial clustering. A cluster—for example, Alfred Marshall’s ‘industrial district’—is an economic opportunity that is caused by local feedback, resulting in increasing returns. It has long been recognized that innovation seems to cluster.

Several economic forces are involved in cluster formation, including spatial economies, scale economies, and information economies. Krugman (1991) calls this ‘increasing returns operating spatially.’ The process of internalizing the external economies of production, consumption and innovation is the mechanism that assembles the cluster into an economic order. Clusters are in this sense not designed any more than are the patterns of comparative advantage that support emergent patterns of trade. Clusters can therefore be economically understood in terms of the dynamic outcomes of any feedback process operating over external economies that result in agglomerative tendencies, including for example preferential attachment mechanisms (Newman *et al.*, 2006). Clusters are a spontaneous order, and therefore so is the innovation processes that result from them.

Cities are a prime example of a spontaneous order, and cities can be understood from the perspective of information economics, both from the information-production and the information-cost perspective. Co-location of firms creates thick labour markets, promotes specialization in labour supply, induces specialist business services including infrastructure and transport, and further promotes the development of output markets, which in turn promotes competition and lowers consumer search costs, and so on (Glaeser, 2011). Cities are the result of processes of increasing returns, the
same processes that also drive innovation. This is a naturally and spontaneously occurring clustering phenomenon.

If clusters can be planned then innovation can be planned (through that mechanism). But mounting evidence suggests that the standard model in which clustering drives knowledge sharing (external economies) thus driving innovation may be somewhat misleading, if not entirely backwards (cf. Audretsch and Feldman, 1996; Belleflamme et al., 2000; Breschi and Malerba, 2001; Owen-Smith and Powell, 2004).

Instead, the argument seems to run the other way: namely that ‘it is firms’ capacity to absorb, diffuse and creatively exploit knowledge that shapes the learning dynamics of the cluster as a whole’ (Guiliani and Bell, 2005, 64). The implication is straightforward but still widely unappreciated, namely that innovation and clusters are both spontaneous orders, and that the efficacy of the cluster depends upon the spontaneous order of the innovation process. You cannot design clusters separately from the design of innovation, which is in effect to admit that neither can be entirely designed: they are mutually constitutive spontaneous orders.

The basic units of a cluster are nevertheless knowledge-using and knowledge-generating firms. Such firms will tend to co-locate to the extent that knowledge externalities can be created and exploited. This is a property of the ‘absorptive capacity’ of the firms themselves, not of the environment. (The ‘Coase theorem’ suggests that we would expect firms to bargain and contract their way toward internalizing the externality.) Innovation networks and clusters simultaneously emerge as the network and spatial dimensions of this growth-of-knowledge process. They are the emergent consequence of firms discovering and exploiting knowledge complementarities. Clusters and innovation are part of a mutually constituting spontaneous order.

2.5 Copying

The role of copying in innovation has different meanings when understood as part of a taxis or a cosmos. This distinction is due to the mathematical parsimoniousness of modelling the innovation process as a class of diffusion process (Rogers, 1995). A diffusion process is a model borrowed from epidemiology to study the dynamics of infections through a population. This form of model emphasizes information replication, perhaps with some decay. Yet the problem with this model is that it downplays the fundamental amplification and discovery process of distributed copying with adaptation that underpins most such mechanisms, and which was indeed central to Zvi Griliches’ (1957) seminal study on technological diffusion.

Copying is a process by which ‘generic’ rule evolution occurs, and can be a mechanism by which the copying of a new idea into a population gives rise to a spontaneous order through its population-level consequences and its interaction with local knowledge and resources (Potts, 2013). In a simple diffusion process a novel idea is introduced into a population (dropped in from outside, say) and then diffuses through the population based on the ‘susceptibility to infection’ or ‘probability of adoption’ of each agent in a connected population. Given a set of parameters describing that susceptibility, population structure, and the initial seeding of the population, a diffusion model can estimate the spread of the novel idea. These simplifications are of course part of the modelling abstraction, but this approach tends to obscure a crucial aspect of a diffusion process: the adaptive mixing of the idea with distributed or local knowledge. While the diffusion model is entirely suitable in some cases, for the most part the innovation process unfolds as a copying process, thus copying a generic rule (Dopfer and Potts, 2008). This rule will often be adapted into a local circumstance.

We can represent this process with a logistic-diffusion curve (Metcalfe, 1998), but the problem with that view is that it seems susceptible to planning and design. It fails to capture the distributed interaction with local knowledge and the way in which the overall innovation process is affected. What is actually happening at the micro level of such a process is that economic evolution is occurring in the knowledge-base of an economy through the operation of a distributed, parallel, and differential copying process. Copying processes are how innovation unfolds as a novel generic rule is selectively mixed with local knowledge in different environments, adding variation and local adaptation. This is not the same as a diffusion process where a single ‘rule’ replicates through a population of differentially susceptible agents. The first—copying—is a representation of a cosmos, the second—replication—represents a taxis.

An example can be seen in the difference between two types of restaurant and food, namely the difference between US food franchises—such as McDonalds or Pizza Hut—and what we may loosely call ‘Chinese food’, which has also spread all over the world, but not by the same mechanism and with different consequences for knowledge and economic structure. In essence Chinese food has spread through copying, such that it mixes with local circumstance and opportunity. This can mean different ingredients, different economic institutions and circumstances, leading to different
product and business models, all of which can be observed by others. This provides further information, including about success and failure. This is valuable information about what works and what doesn’t in different environments. In the process, the knowledge base of ‘Chinese food’ is evolving. But the franchise model does not achieve this, or at least not to anything like the same extent, and instead depends on the quality of decisions made centrally.

It is unclear whether distributed copying or centrally-controlled replicating is the superior strategy without further information on aggregate preferences and environmental circumstances. But we can observe their differentiating aspects. For a start, they learn in different ways. Chinese food learns adaptively and locally, with a great deal of system-wide experimentation networks (and clusters) of observations. McDonalds (say) learns at the centre, with considerable more investment in expertise. The business model is then based on a standardized delivery. There is also a different fit with the local environment, with greater opportunity for adaptation to local conditions and opportunities with Chinese food. But there is also greater cost in that experiment that is unable to be spread over many others.

3 IMPLICATIONS

Our starting premise of this paper was that there are two broad views on the nature of the order of innovation—as a planned order or a self-organizing order—that usually come bundled with one’s priors on the nature of the market order. Specifically, where one is predisposed to see market failure, one will also tend to a taxis view of innovation, and the concomitant role of planning and ‘innovation policy’. However, where one tends toward a market process view, one will also tend toward a cosmos view of innovation as the outcome of a spontaneous order, and thus toward scepticism of the efficacy of innovation policy. The purpose of this paper has been to propose five additional reasons that stack up on the cosmos side of the argument.

The five points above—science, business models, cooperation, clusters, copying—outline five further ways in which innovation should be understood as a spontaneous order. The parallel with science suggests seeking lessons in the governance of science. In science, for the most part, the gains from decentralization, as well as the costs of centralization, are high. Innovation is likely to be similar. Furthermore, the institutions that do work in incentivizing science—such as the norm-governed reputational economy—might be effectively replicated in the innovation economy.

Business models are a particular class of institution that also needs to be open in order for economic evolution to occur. Many new technologies and other new ideas for economic opportunities require new, or at least modified, business models. It is impossible to know these beforehand: they must be discovered. This part of the innovation process works best as a cosmos.

Co-operation is fundamental to transaction costs and to copying. But co-operation tends to be something that emerges under certain rules, and not otherwise. It is not something that can be designed or imposed. To the extent that co-operation matters to innovation, then innovation is best understood as a cosmos. Co-operation is never a free policy variable, in either sense of the word. Clusters simply mean that there is also a spatial dimension to the folly of picking winners, and that the price we pay for this is measured in the distortions to the spatial economic forms that would be generated by an open system. Copying simply means the mechanism by which local knowledge is adapted into an unfolding process. This is, in essence, a dynamic version of Hayek (1945).

None of these lines argues entirely against policy intervention in the innovation context, but they do suggest a greater wariness may be warranted regarding the often hidden and unintended costs of taxis intervention. The costs fall on the growth of knowledge, and so is a species of economic welfare forgone. It is easy enough to be constructivist and to suppose that the many innovations we see around us are the result of great and successful plans that are of the sort that Hayek (1973, Chapter 2) defined as a taxis rather than an unintended type of order—a cosmos. In such a taxis, innovation is the result of investment following a plan. Innovation produces a good, as structured by an innovation system and incentivized by an innovation policy (Metcalfe, 2005). This sort of planned innovation design is widely believed to be part of how a rational economic order grows (OECD, 2010). Obviously this is in part true. But it is also partly wrong, in that it undervalues or ignores the cosmos aspect of the mechanism, the extent to which the innovation process best unfolds as an emergent spontaneous order.

In cosmos, innovation evolves through rule-governed interaction via co-operation, clusters and copying, and without any end in mind. Innovation is a spontaneous order. In taxis, it is through targeted investment and support. This distinction between the taxis and cosmos aspects of innova-
Innovation currently is not, but should be, a far more fundamental part of innovation theory, and hence innovation policy.

NOTES

1 Polanyi (1962, 74) argues that: ‘The Republic of Science is a Society of Explorers. Such a society strives towards an unknown future, which it believes to be accessible and worth achieving.’

2 See Metcalfe (2010, 12) on the relation between Hayek’s (1973) spontaneous order and Polanyi’s (1962) concept of a republic of science.

3 A more recent example comes from ‘open science’ (Nielsen, 2012), which is a parallel to ‘open innovation’ (Chesbrough, 2005). Open science is the drive toward sharing and pooling data and discovery. Most examples come from physics and astronomy at the moment (e.g. arXiv, Galaxy Zoo, Foldit) but this is spreading to other sciences. A key rationale is the benefits that come from an open distributed model in respect of the discovery process.

4 For example, think Sears and catalogue sales; the supermarket; Gillette loss-leading on handles and profiting on shaving heads; or applications of rental-based businesses; or Google giving away search in exchange for eyeballs that are then auctioned off millions of times a second; think Groupon, or Ebay, or Amazon, or Etsy (von Hippel, 2005).

5 This observation was made by New York Times food columnist Jennifer Lee in a TED talk: www.ted.com/talks/lang/en/jennifer_8_lee_looks_for_general_tso.html.

6 Other examples of these rule-copying processes (from my own work) include investment decision rules (Chai, Earl and Potts 2008), happiness (Potts, 2011), and the development of video games (Banks and Potts, 2010).

REFERENCES


Bringing Order to Emergent Order: 
The Importance of Highway Patrol Troopers*

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Abstract: Within the context of an emergent traffic order, this article explores the potential benefits a highway patrol trooper has on the free flow of traffic when a driver is detained for a traffic violation. As such, this article examines the macroscopic character of an arterial highway using the Constructal Law. Microscopically, complex adaptive systems theory and three phase traffic theory are used to better understand traffic flow mechanics. Furthermore, Hayek's rule of law, primarily the distinction between law and legislation, provide an outline for maximizing the free flow of an emergent traffic order while adhering to a Constitutional framework.

Keywords: Hayek, Constructal Law, complex adaptive social system, rule of law, emergence, traffic flow, highway law enforcement

INTRODUCTION

What is the performance impact of a free-flowing, complex social system when a conscious agent’s individual movement is restrained due to a rule-set violation? This article explores the operational environment of an arterial highway through the lens of a dynamic flow system. As such, in order to facilitate the free flow of an emergent traffic order, the article examines the latent benefits of a trooper patrolling an arterial highway for traffic violations.

The article is structured in the following manner. First, it establishes that the natural flow design and purpose of an arterial highway is best illustrated using the Constructal Law. Second, complex adaptive system theory and three-phase traffic theory, respectively, further explain the mechanics of interacting drivers and traffic flow degradation. Third, it employs F. A. Hayek’s contributions to the literature on the Rule of Law as a backdrop for discerning the propriety of rule sets that naturally emerge within a complex adaptive social system. Fourth, the article then explains why a highway patrol trooper benefits the free flow of an emergent traffic order. Finally, a fifth component of the article suggests applying agent-based modeling as a potential research method for further highway flow analysis.

CONSTRUCTAL LAW

In reaching out to a diverse public, communicating the general operational environment of a highway flow system can be challenging. As such, scientific constructs may benefit a broader audience in expressing the nature of an arterial highway and the important role a highway patrol trooper plays within an emergent traffic flow order. The article begins with describing the macro level aspects of traffic flow continuing down to the micro level. First, however, what exactly is an arterial highway and how does an arterial highway come about?
The functional classification of an arterial highway, according to the Federal Highway Administration (FHA) in the United States, is a highway that “[p]rovides the highest level of service at the greatest speed for the longest uninterrupted distance, with some degree of access control.” (Federal Highway Administration, 2012) In their book Nature in Design, Adrian Bejan’s and J. Peder Zane’s (2012) Constructal Law is used to provide a 50,000 ft. (15,000 m) view of an arterial highway’s natural design and emergence within the context of a traffic flow system. The Constructal Law suggests: “For a finite-size flow system to persist in time (to live), its configuration must evolve in such a way that [it] provides easier access to the currents that flow through it.” (Bejan and Zane, 2012, 3) The Constructal Law suggests that flow systems, both animate and inanimate, naturally develop branched tree-like structures as the most efficient design to facilitate the flow of mass from point-to-area and area-to-point. (Bejan and Zane, 2012, 4)

Within a vehicle-based flow system, equilibrium for the flow of mass is reached through a series of interconnected transitions from slow-moving areas toward fast-moving areas (and vice versa). Furthermore, the natural tree-like design associated with the Constructal Law states a natural hierarchy of flows (Bejan and Zane, 2012, 155). That is to say, slower movement is common for shorter distances, whereas faster movement is typical with longer distances. According to Bejan and Zane, these flowing interdependencies can also be described as a form of “vascularization.” Indeed, “[t]he most familiar template for this is the vascular structure of our circulatory system, which delivers life giving blood to all the cells in our bodies” (e.g. arteries, veins, capillaries).” (Bejan and Zane, 2012, 154)

While the construction of our transportation systems may be deliberate, its design and configuration for efficient flow naturally emerge in a manner similar to many other flow systems, including rivers, lightning bolts, and veins. We find the Constructal Law in many of our daily travel routines (Bejan and Zane, 2012, 61); individual drivers will first walk (i.e. flow) from their house to their vehicle in the driveway. Those vehicles then travel slowly on shorter side streets which transition to longer/larger main roads where vehicles gain speed. Main roads then flow into faster-moving and longer-distance arterial highways.

Throughout the transportation system, vehicle flow is slow and short with transitions to fast and long (Bejan and Zane, 2012, 196). The Constructal Law provides a scientific foundation which not only compliments the FHAs’ definition of an arterial highway, but provides a basis for the high-way’s purpose within a holistic traffic flow system. While the Constructal Law illustrates the physics of how traffic systems flow, the following section discusses “the what” of traffic flow (Bejan and Zane, 2012, 200).

MECHANICS OF FLOW

As stated above, the Constructal Law provides unique insight into the natural design of animate and inanimate flow systems on a macro level. It does not, however, address in detail the mechanics of what it is that flows. As traffic flow is vehicle flow, this section provides the micro level aspects of the mechanics of vehicle interaction and traffic flow breakdown. From a mechanical standpoint, complex adaptive system theory is applied for contextualizing the interactions between individual vehicles. In addition, three-phase traffic theory is used to explain the dynamic nature of highway traffic flow breakdown (Kerner, 2009).

While it may seem semantic, this article makes a distinction between a complex adaptive system and a complex adaptive social system. So, what exactly is a complex adaptive system? Melanie Mitchell (2009, 13) defines a complex adaptive system as “a system in which large networks of [individual] components with no central control and simple rules of operation give rise to complex collective behavior, sophisticated information processing, and adaptation via learning or evolution.” Generally, complex adaptive systems are “[s]ystems in which organized behavior arises without an internal or external controller or leader … [such systems] are sometimes called self-organizing. Since simple rules produce complex behavior in hard-to-predict ways, the macroscopic behavior is sometimes called emergent.” (Ibid.)

In the context of complexity, John Holland (1995, 7) asserts that “[i]t is useful to think of an agent’s behavior as determined by a collection of rules.” For instance, “[f]lying birds adapt to the actions of their neighbors, unconsciously organizing themselves into a flock.” (Waldrop, 1992, 11) Applying such a model to the free flow of traffic, as individual vehicles obey simple rules they can spontaneously self-organize and adapt vis-a-vis other vehicle actions. Absent centralized control, interacting vehicles obey simple rules, where spontaneous and self-organizing complex adaptive traffic flow collectively emerges from the bottom up.1 By utilizing complex adaptive system theory, we are able to better understand the micro level interactions of individual vehicles.
The next segment of our conversation describes how these diverse vehicle interactions influence the free flow of traffic. Three-phase traffic theory aids our understanding regarding the spatiotemporal mechanics of traffic flow and traffic congestion. Briefly speaking, this theory suggests that when traffic is in free flow, and vehicle density is small, vehicle interactions tend to be more limited, which allows drivers to travel at their maximum desired speeds. (Kerner, 2009, 13) As vehicle densities increase, congestion is bound to occur. With congestion, traffic flow becomes sensitive to perturbations. (Ball, 2012) Consequently, various perturbations can trigger a traffic phase transition where traffic flow breakdown occurs, resulting in bottlenecks and ultimately a traffic jam. (Kerner, 2009)

From the point of view of highway law enforcement, these perturbations are likely the consequences of traffic violations (i.e. violations of rules sets). Furthermore, traffic violations contribute to vehicle crashes and fatalities. Note, however, that up to this point we have not considered the human element when describing the characteristics of traffic flow. Although physics enables a deeper understanding regarding the natural design and mechanics of an emergent traffic flow system, driving is in a fundamental sense—a social activity.

While there is a technical basis for using “agents” and “rule sets” as an abstract illustration, the free flow of traffic is a social interaction between vehicle drivers adhering to traffic law. While the flow of vehicles (i.e. mass) cannot escape the laws of physics, drivers are not deterministic automatons either. Drivers are people, and people are deliberate, conscious and generally rational—though occasionally irrational—actors. Hence the emergent order of the free flow of traffic on an arterial highway can be interpreted as a complex adaptive social system.

As traffic density and/or vehicle velocity increases, human interactions become more dynamic and complex. If an orderly flow of traffic is to emerge, a driver’s compliance with the rules is paramount. The challenge of a free society, however, is creating rule sets where social agents will voluntarily comply.³

LAW CONSTRUCTAL

Not only does the physics of flow mean life, it also means freedom to move. (Bejan and Zane, 2012) In an emergent free flow of traffic on an arterial highway, the policy challenge is developing traffic laws that promote the following rule outcomes—all of which should occur simultaneously:

1. Voluntary compliance of individual drivers
2. Maximized freedom of movement for individual drivers
3. An emergent and free-flowing traffic order

In realizing these outcomes, the contributions of Hayek's Law, Legislation, and Liberty (1973) can help us to understand the distinction between "law" and legislation. Hayek discovered that in most cases, the rules to achieve these outcomes are already present before they are codified in legislation. In other words, many of the abstract rules regulating social interaction ("the efficient flow of society") are exemplified through mores, habits and traditions permeating through a cultural heritage. (Hayek, 1973, 17)

In selecting appropriate traffic laws or rules, the policy-maker’s task, as Hayek said of legislation in general “will be regarded as one of discovering something which exists, not as one of creating something new, even though the result of such efforts may be the creation of something that has not existed before.” (Hayek, 1973, 78) In other words, legislation prohibiting “texting while driving” did not exist prior to its enactment. Still, the shared “rule” inferring that it is unsafe to drive while texting became intuitively apparent prior to the legislation prohibiting it. Just like the Constructal Law is a natural design for the efficient movement of mass in a flow system, socially acceptable “rules of the road” naturally emerge to facilitate the efficient flow of traffic. Hayek also provides policymakers a framework for appropriating an existing socially accepted rule into legislation.

Applied to a spatiotemporal traffic flow framework, Hayek provides guidance for crafting legislation that maximizes driver freedom. He suggests that "[t]he state should confine itself to establishing rules applying to general types of situations and should allow the individuals’ freedom in everything which depends on the circumstances of time and place, because only the individuals concerned in each instance can fully known [sic] these circumstances and adapt their actions to them.” (Hayek, 1973, 83). But how does this apply to driving?

The free flow of an emergent highway traffic order is an adaptive, bottom-up, and decentralized process where decisions are spontaneously made by individual drivers based on localized information. Therefore, if drivers are to freely traverse an arterial highway, communication and coordination between drivers is critical. For instance, in avoiding the “perturbations” that can lead to a traffic jam (or worse), universal rules such as requiring a luminous signal (i.e. a blinker) to
be used before changing lanes helps mitigate the risk of collision. A blinker on a vehicle is a communication and coordination device that telegraphs to other drivers that movement is about to occur.

The basic rule of requiring drivers to use a blinker when changing lanes is what Hayek refers to as the “circumstances of time and place.” (Hayek, 1973, 84) A blinker increases another driver’s ability to interpret the circumstances of time and place, which in turn provides opportunity for spontaneous adaptation. As drivers voluntarily comply with simple and general rules, a spontaneous traffic flow order that is complex, adaptive, decentralized, and leaderless naturally emerges.

The next section, however, discusses the potential impact on an emergent traffic order when traffic rules are violated. Not only might traffic flow cease when drivers fail to comply with traffic law, but catastrophes might occur. To recapitulate an earlier point, traffic rules that promote both individual freedom and voluntary compliance do not necessarily originate from a policymaker. In many cases, legislation merely institutionalizes prevailing customs. Likewise, traffic legislation which institutionalizes existing social customs increases the likelihood of voluntary compliance.

Within the context of the free flow of traffic, the purpose of legislation could be interpreted as a way to enforce prevailing social customs. Hayek himself contended that, in order to facilitate a spontaneous and emergent social flow, “the organization which we call government becomes indispensable in order to assure that those rules are obeyed.” (Hayek, 1973, 47) This passage alludes to the vital role of the highway patrol trooper.

RULE SET ENFORCEMENT

In many ways, the creation of the highway patrol as a specialized area of law enforcement is also an emergent phenomenon. In the early part of the twentieth century, the free market propelled the United States into what John Steele Gordon (2004) called “an empire of wealth.” Fueled by the industrial revolution, “[b]y the 1920s the automobile industry had become the largest in the American economy.” (Gordon, 2004, 299) Gordon notes that in spite of barely any paved roads in 1900, there were 662,000 miles (1,066,000 km) of paved roads in the United States already in 1929. (Ibid.)

Freedom, then again, does not necessarily mean license. In fact, freedom requires the individual to exercise some degree of self-restraint. Unfortunately, “[b]y the 1920s, accidents were frequent and many people were killed or injured every year on the roads and highways. In 1924, there were 23,600 deaths due to auto accidents, 700,000 injuries, and more than [US]$1 billion in property damage.” (Melosi, 2010)

The emergence of the Utah Highway Patrol (UHP) highlights Hayek’s distinction between law and legislation. With the development of the automobile, in 1923 “the Utah State Legislature empowers the State Road Commission [later designated the UHP] to patrol the highways of the State.” (Utah Highway Patrol, 2013) Using prevailing custom as a standard for enforcement, the “State Road Commission adopts a regulation requiring traffic to stop before entering an arterial highway.” (Ibid.) The challenge of a decentralized and emergent traffic order is that drivers within a free society need to voluntarily comply with the rules. But what happens if a driver refuses to voluntarily comply?

“[O]ur Mission is to provide professional police and traffic services, and to protect the constitutional rights of all people in Utah”
  – UHP Mission Statement

The emergence of the UHP is an explicit acknowledgement that an enforcement mechanism is required for curtailing driving behaviors that may disrupt the free flow of an emergent traffic order. From a public safety standpoint, the emergence of the UHP facilitates the safe and free flow of traffic within an arterial highway. However, does a trooper’s detainment of an individual driver for traffic law violations bring order to the free flow of an emergent traffic order?

Consider the following hypothetical example: a driver is speeding, making improper lane changes, and failing to operate within a single lane; he or she is subsequently detained by a trooper for corrective action. Is the freedom of other drivers to pursue their self-interest increased by the trooper detaining the reckless driver? Yes, because by detaining a non-compliant driver for reckless driving, the trooper has intercepted a potential hazard from disrupting the overall free flow of traffic.

It is important to recognize that highway patrol troopers do not depend on a central authority to initiate a response to a rule set violation. (Villarreal, 2008, 44) Indeed, embedded in the free flow of traffic, troopers patrol in a decentralized manner and confront potential hazards automatically and with no central instruction. (Ibid.) Nevertheless, affected drivers may also “tag” a violator by communicating to a centralized dispatch the violator’s behavior, location and
identifiers so they can be found. In addition, highway patrol troopers are not only instrumental in responding to vehicle crashes for scene safety and investigation purposes, but also in coordinating medical responses for the injured and in clearing any obstructions so the free flow of traffic can resume.

Within a complex adaptive social system, highway patrol troopers are key social agents. One could describe troopers as the “craftsmen” of highway safety. Every highway incident is unique and thus often requires an immediate and customized plan when responding to the circumstances of time and place. Moreover, what makes a highway patrol trooper a professional is that their individual actions are accountable to constitutional rules.

Hayek, while he acknowledged the value of government enforcing rules, also cautions against arbitrary government interference. Hayek suggests:

While every law restricts individual freedom to some extent by altering the means which people may use in the pursuit of their aims, under the Rule of Law the government is prevented from stultifying individual efforts by ad hoc action. Within the known rules of the game the individual is free to pursue his personal ends and desires, certain that the powers of government will not be used deliberately to frustrate his efforts. (Hayek, 1973, 81)

In the context of the free flow of traffic, the Hayekian Rule of Law not only provides direction for drivers, but equally important, places restrictions on the government. For a trooper to detain a driver a violation is required. If a driver is unlawfully detained, the government is arbitrarily interfering with the free flow of traffic instead of facilitating it. Any additional criminal evidence recovered from an unlawful stop would be determined to be invalid. As such, Hayek’s contributions to the Rule of Law can also be interpreted as a constitutionally-based framework for enforcing rules within a complex adaptive social flow system.

Although highway patrol troopers are primarily an enforcement mechanism, troopers are also educators; a complex adaptive social system is also a learning system and adaptation can occur through public information and education. For example, educating the public regarding the dangers associated with not wearing a seatbelt or with excessive speeding can lead to greater voluntary compliance. As another example, the analysis of crash data can support data-driven strategic planning for the purpose of maximizing the free flow of traffic. Crash data not only assists targeted enforcement (McFall, 2013), but can also intelligently alert various public safety stakeholders to the problems associated with motor vehicle crashes. (Utah Highway Safety Office, 2011)

“CRAZY” AGENT-BASED RESEARCH

Earlier in the article it was suggested that applying an agent-based model could be a potential research tool for further highway-flow analysis. Then again, as previously expressed, drivers are not deterministic agents but people. In any type of controlled experiment, such as an agent-based theoretical computational model, an agent will become a non-sentient automaton.

Even so, utilizing a computer model to reveal real-world traffic flow insight can energize opposition. In their book *Complex Adaptive Systems*, John Miller and Scott Page provide the rationale for employing computational modeling when analyzing agent behavior in complex adaptive systems:

A common objection to computation is that the answers are “built-in” to the model, and thus we can never learn anything new from these techniques. Clearly, the first part of this objection is absolutely correct – the results of the computation are built-in since the computer will, without error, follow its predetermined program. Nonetheless, the inference that somehow this makes an unacceptable theoretical tool is wrong. (Miller and Page, 2007, 69)

The purpose of employing an agent-based model here is not to predict the future behavior of an agent, but to test an earlier claim. Specifically, can rule set violations by individual drivers within an arterial highway degrade the free flow of an emergent traffic order? The primary purpose of this research would be to study the potential consequences to the free flow of an emergent traffic order when agents violate the rule sets.

An agent-based model could be programmed to simulate tasks a driver on an urban arterial highway would be expected to perform. For example, an agent would be required to travel a certain speed, operate within a single lane, not follow other drivers too closely, secure loose cargo, travel the same direction as traffic flow, use a blinker when changing lanes, etc. While this is a short list, agents could potentially be programmed to mimic the traffic rules outlined in a state’s traffic statute. Moreover, perhaps using a random number genera-
tor, certain agents would also be programmed to intentionally violate the rules. Additionally, such an agent based model may also provide insight regarding the impact a constitutionally restricted enforcement agent has on facilitating the free flow of an emergent traffic order.

CONCLUSION

This article has argued that the natural flow design and purpose of an arterial highway is best illustrated through the Constructal Law. In addition, complex adaptive system theory and three-phase traffic theory help explain the mechanics of interacting drivers and traffic flow degradation. Hayek’s distinction between law and legislation explains that the rules within a complex adaptive social flow system have a tendency to emerge naturally. This provides an explanation for why a highway patrol trooper facilitates the free flow of an emergent traffic order within an arterial highway.

A feasible component of measuring the general public’s quality of life could include a free and continuous flow of traffic. (Sullivan, 2014) From an economic standpoint, “[t]he transportation sector moves goods and people, employs millions of workers, generates revenue, and consumes materials and services produced by other sectors of the economy.” (Bureau of Transportation Statistics) As it relates to the economic benefits of the transportation of freight, it’s estimated that in 2002, the “transportation-related goods and services accounted for more than 10 percent—over $1 trillion—of U.S. Gross Domestic Product.” (Ibid.)

In a free society, the expectation of the motoring public is to seek out their individual self-interest with minimal interference, whether such activity is commerce, going to a sporting event, or taking the family to church. One way to achieve this shared community goal is for individual drivers to voluntarily comply with the traffic rules. However, in order to maintain the free flow of a complex adaptive social system, an enforcement mechanism provides a required corrective action when a social agent violates the rules.

At the end of the day, in bringing order to the free flow of an emergent traffic order, if a highway patrol trooper didn’t already exist—we would have to invent one.

NOTES

* The views expressed in this article are those of the author and do not reflect the official policy or position of the Utah Highway Patrol or the Utah Department of Public Safety.
1 In the context of a complex adaptive social system, Daniel Klein highlights the folly of central planning using an ice skating analogy. Klein depicts an ice skating rink owner that “hires a man with the reputation of a saint, and with two PhDs from Yale, one in civil engineering and one in ethics. This smart saint stands in the organ booth, holds a bullhorn up to his mouth, and calls out directions: ‘You in the blue jacket, speed up and veer to the left.’ ‘You in the black overalls, I want you to slow down and move toward the inside’ And so on.” (Klein, 2012, 5) (Needless to say, as Klein suggests, this type of central planning would be a disaster.)
2 Hat tip to Sergeant N. Croft.
3 Previous conversations with John D. Harman.
4 At least implicitly, Israel Kirzner’s (1997) contributions regarding entrepreneurial discovery may apply to both drivers and troopers. In a Kirznerian discovery process, an alert driver can observe other drivers commit rule set violations, and to a certain degree, anticipate potential hazards, spontaneously adapting in order to avoid them. Also, each driver has additional incentives to be alert for potential hazards because their safety (i.e. well-being) and property (i.e. vehicle) can be negatively impacted if they are not. Entrepreneurial discovery can also apply to law enforcement. For instance, if a driver speeds past a trooper, the trooper did not “discover” the vehicle—he merely observed it go by. That being said, when the trooper detains the vehicle and interacts with the driver, an alert trooper—through the scope of his investigation—may discover the driver to be impaired, to be in possession of drugs, to have outstanding warrants, to be involved in human trafficking, etc.
5 Troopers cannot be at all places at all times. As such, it’s not uncommon for drivers to call 911 and report a reckless driver and/or other types of highway hazards.
6 For a broader discussion regarding the craftsman as an intellectual, see The Sociological Imagination by C. Wright Mills (2000).
7 Of course, every officer in law enforcement is accountable to the same constitutional rules.
From the standpoint of transparency, the patrol cars of UHP field troopers are outfitted with video and audio equipment to document the integrity of the stop.

In American jurisprudence, this is also known as “The Fruit from the Poisonous Tree.”

For an additional perspective on the benefits of a highway patrol trooper, see Life and Death in the Fast Lane: Police Enforcement and Traffic Fatalities, by Gregory DeAngelo and Benjamin Hansen (2015). Also, special thanks to Sergeants N. Croft, D. Moreno, and J. Cox for their feedback, either written or verbal, about the flow of traffic.

Paraphrase of a United States Marine Corps recruitment video.

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Dispersed Knowledge and Individual Freedom: The Forgotten Popular Political Economy of Thomas Hodgskin

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Abstract: The importance of knowledge in a market economy is usually deemed to be an issue that only emerged in the 20th century. This paper argues that journalist and political essayist Thomas Hodgskin foreshadowed some of the basic tenets of the reflections by F. A. Hayek (among others) in the 20th century. The main focus of the paper is Hodgskin’s book Popular Political Economy. While often considered a “Ricardian socialist”, Hodgskin was instead a passionate follower of Adam Smith. However, he thought Smith did not fully appreciate the importance of human knowledge for the development of the economy. For Hodgskin, it is precisely because knowledge is dispersed in society, and legislators cannot come to master it, that the “system of natural liberty” should be upheld. The growth of knowledge is for Hodgskin a wholly “democratized” process, the whole of society is a great knowledge-creating enterprise: he emphasized the cognitive dimension of any human effort, maintaining that it was the free development of new ideas that empowered men. For this very reason, he thought that demographic growth was conducive to a more developed and innovative society. In Hodgskin’s perspective, government couldn’t but hinder the spontaneous “higgling of market”.

Keywords: Thomas Hodgskin, F. A. Hayek, dispersed knowledge, Adam Smith, innovation, population growth, creativity, Ricardian socialism, laissez-faire, Popular Political Economy.

The importance of knowledge in a market economy is usually deemed to be an issue that only emerged in the 20th century. Proponents of this perspective often cite F. A. Hayek’s “The Use of Knowledge in Society”—among his most renowned essays)—as a turning point, although its central contention was a broadly-investigated issue in the Austrian school. Hayek’s reflections on the impossibility of perfect knowledge meaning that problems cannot be solved by single decision-makers have important political implications. This thesis permeated his subsequent work in the field of political philosophy. Indeed, the notion that the economy can be arranged such that “a common scale of importance determines which of the various needs are to be satisfied” (Hayek, 1978, 183), and that prices and incomes should be adjusted according to a pre-existing vision of “just” outcomes was a fundamental belief held by the opponents of the market economy. Conversely, the emphasis on the unavoidable ignorance of political decision-makers is frequently the central argument of advocates for individual liberty.

While many see Hayek and other Austrian School thinkers as the fathers of this idea, Thomas Hodgskin (1787-1869) is an under-considered forebear of the same argument, and, like Hayek was similarly determined to draw political conclusions from it. In quite different circumstances and well before the “marginalist revolution,” it is possible to discern in his Popular Political Economy (1827) a number of early
speculations on the dispersed knowledge that underpins the division of labor. While Hodgskin has long been considered a “Ricardian socialist,” *Popular Political Economy* followed in the footsteps of Adam Smith in that it advocated a freer economy. However, Hodgskin’s argument in support of unfettered competition was based on his understanding of the role of knowledge in the economy. He maintained that Smith did not devote enough attention to the importance of knowledge to economic processes.

In this paper, I will introduce the reader to Hodgskin’s arguments by comparing them with related arguments from Smith and Hayek. Though it is my contention that Hodgskin anticipated several of Hayek’s most important ideas, I will not attempt to contrive a para-genealogy of Hayek’s thought.¹

A short biographical sketch

Thomas Hodgskin is a neglected figure in the history of political thought. He was born in Chatham in 1787. At the age of twelve, the young Thomas completed his formal education and was forced by his father to enlist in the Royal Navy.

He spent the following decade at sea, continuing his un-systematic self-education with whatever books he managed to acquire. He believed that naval discipline was “one universal system of terror,” instilling “no obedience, but what was forced; no respect, but what was constrained” (Hodgskin, 1813, ix). Despite the fact that “for most of his service Hodgskin enjoyed an exemplary career” (Stack, 1998, p. 36), he was court-martialed for having let a prisoner under his charge escape, and for having subsequently written a disrespectful letter to his commanding officer regarding this matter. Hodgskin was demoted, thwarting his career prospects and making “a discontented and disappointed man” of him. Forced to return to civilian life and only supported by a modest pension, Hodgskin faced a world in which he had no real experience. With little formal education and no regular employment, he published a short polemic based upon his experiences in the Navy in 1813. Its title makes clear Hodgskin’s purpose: *An Essay on Naval Discipline, Shewing Part of its evil Effects on the Minds of the Officers, on the Minds of the Men, and on the Community; with an Amended System, by which Pressing may be immediately abolished* (Hodgskin, 1813). This short essay was simultaneously a condemnation of the brutality of naval discipline and an appeal to civil authorities for reform. Hodgskin considered it paradoxical that the Royal Navy, which was meant to preserve English liberties, relied so heavily on impressments.

In the same year, Hodgskin enrolled in the University of Edinburgh as a literature student, but he only attended a few classes. The turning point in his life was his meeting with Francis Place, a central figure in London’s political and intellectual scene. Through Place, Hodgskin was introduced to Jeremy Bentham and James Mill. However important these acquaintances were to be—he regarded Place with “an almost child-like admiration” (Stack, 1998, 57)—their influence on Hodgskin’s thought turned out to be surprisingly inconsequential. As Elie Halevy observed in the first systematic study of Thomas Hodgskin’s thought:

'[a]gainst Benthamite Utilitarianism which reduced every deed of virtue to a plain and calculated act of individual prudence, he took up the defence of those moral promptings, which, although doubtless not free from the influence of prejudice and error, are an expression of the total experience of mankind and a prerequisite of knowledge and foresight. (Halevy, 1903/1956, 35)

It was thanks to Place that Hodgskin could embark on a long journey across Europe. In Paris he attended the lectures of Jean-Baptiste Say, and his extended time in Germany led to the publication of two volumes entitled *Travels in the North of Germany* (Hodgskin, 1820). The modest success of this work and other unprofitable attempts at making a living as a writer left Hodgskin in precarious financial circumstances. This changed for the better in 1822, when the influence of Place and Mill helped him to obtain a position as parliamentary reporter for the *Morning Chronicle*, which was edited by John Black. Later Hodgskin was involved in establishing the *Mechanics Magazine*, edited its sister publication *The Chemist*, wrote for assorted radical publications and eventually joined *The Economist*.² Hodgskin started at *The Economist* writing reviews of books and pamphlets on economic and social issues (Edwards, 1993, 127), and then became one of the publication’s most prolific contributors.

At *The Economist*, Hodgskin met Herbert Spencer.³ He wrote a very favorable review of Spencer’s first treatise, *Social Statics* (Spencer, 1851). After leaving *The Economist* in 1857, Hodgskin continued to work as a journalist. Gradually, however, he slipped into obscurity; no London newspaper reported his death in 1869 (Halevy, 1956, 165).

Hodgskin’s time at *The Economist* can be seen as a watershed. Before joining the newspaper he had completed his three major works: *Labour Defended Against the Claims of Capital* (1825) (authored under the pseudonym “a Labourer”), *Popular Political Economy. Four Lectures*...
Delivered at the London Mechanics Institution (1827) and The Natural and Artificial Rights of Property Contrasted (1832). After 1832, he only published a brief essay advocating the suppression of tariffs on imported grains: A Lecture on Free Trade in Connexion with the Corn Laws (Hodgskin, 1843). His final notable contribution consisted of two lectures on political power and the causes of crime, both of which were published in 1857 (Hodgskin, 1857a, 1857b).

The focus of this paper is Popular Political Economy—the essay that offers the most systematic illustration of Hodgskin’s approach to economic issues. It is worth noting that Hodgskin is mainly remembered for his Labour Defended Against the Claims of Capital. According to H. S. Foxwell, this essay was the most “widely read on both shores of the Atlantic” and was instrumental in placing him among the pre-Marxian socialists (Foxwell, 1899, iv). Similarly, Alexander Gray states that:

among the English forerunners of Marx, it is Thomas Hodgskin who gives most clearly the impression of intellectual eminence and distinction, and who leaves most acutely a feeling that here was one designed for greatness which, owing to the misfits of time and life, was never attained. (Gray, 1946, 277)

Foxwell and Gray considered Hodgskin a British social—ist because of his denial of any independent contribution of capital—and thus also the denial of the duty to reward it. To Hodgskin, capital is inert and only becomes productive when human labor is applied to it. However, he distinguishes the capitalist—a parasitical intermediary, in Hodgskin’s view—from what writers would now call the entrepreneur:

Masters, it is evident, are labourers as well as their jour- neymen. In this character their interest is precisely the same as that of their men. (Hodgskin, 1825/1964, 27)

The reduction of all production factors to the sole element of labor earned Hodgskin the otherwise baffling praise of Sydney and Beatrice Webb, who went so far as to refer to Karl Marx as “the illustrious disciple of Thomas Hodgskin” (Webb and Webb, 1920, 162). More careful scholars, however, have not failed to notice the chasm that separates Hodgskin from contemporaneous and later socialist thinkers.

In his History of British Socialism, Max Beer asserts that Hodgskin “was no socialist. He preferred competition in the mists of institutions and opinions as free as man can form them” (Beer, 1919/1984, 206). For Alexander Gray “the fundamental element in Hodgskin is a blend of Adam Smith and Godwin” (Gray 1946, 278). Noel Thompson (2002, 98) remarks that Hodgskin’s policies “would have pleased the most fervent disciple of Adam Smith.”

The Natural and Artificial Right of Property Contrasted, the last of Hodgskin’s major essays, provides a definitive outline of his political thought. In this collection of letters to Lord Brougham—a leading figure in the Whig party and founder of the Edinburgh Review—Hodgskin offers a radical denunciation of the very idea of government. Hodgskin condemns the organization of political means and, as such, a denunciation of the organization of economic means. He does not challenge the underlying logic of Smith’s “system of natural liberty”: what creates positions of rent and privilege, Hodgskin argued, are political encroachments. Hodgskin (1832, 4) appeals to the authority of Douglas Stewart to contend that “society has a course of its own,” and the “ultimate objects at which a wise legislator ought to aim” should be to recognize such a course and learn “what are the principles of legislation necessary for maintaining it,” before enacting new rules. Hodgskin concludes that:

[s]ociety is a natural phenomenon, and I inquire into the laws which regulate it, as I would inquire into the laws which regulate the course of the seasons (Hodgskin, 1832, 160).

Nowhere in Hodgskin can the notion be found that market exchange gives rise to exploitation. Instead:

[m]an is created free to buy and sell with whom, when, and where he likes, and legislators are bound to prove such freedom a great public injury, and that they are wiser than nature, before they venture in any case to restrain it. (Hodgskin, 1843, 11)

As Murray Rothbard (1995, 399) argues, Hodgskin was “invariably listed by historians as a leading Ricardian social- istic,” but was in fact “most emphatically neither a Ricardian nor a socialist.” He is seldom recognized, in Hamowy’s words, as “one of the most original libertarian thinkers in Victorian England” (Hamowy, 2008, 227). George Smith (2013, 147), a notable exception to this line of thought, sees Hodgskin as a liberal critic of Bentham. T. W. Hutchinson (1978, 242n) concurs, claiming that Hodgskin “would much more accurately be described as a ‘Smithian anarchist’ than as a ‘Ricardian socialist.’”

Popular Political Economy
(Hodgskin, 1827) originated from four lectures held by Hodgskin at the London Mechanics Institution in 1826; it provides clear evidence that Hutchinson's definition is a very apt one.

The goal of Hodgskin's 1827 essay is to offer "knowledge of the natural laws which regulate the production of wealth, and consequently the progress of civilization" (1827, xxiii). The qualification "popular" does not imply that this brief treatise aims at the general public: as Halevy observes, it was "political economy not vulgarised and written down to the level of a popular audience, but conceived from the standard of the interest of the people" (1903/1956, 91-92).

The adjective "popular" also hints to an attack on Thomas Malthus and his support for a strict policy of birth control in the belief that, whereas the growth of population is geometric, that of the means of sustenance follows an arithmetic progression, and any unchecked increase of population is inevitably fated to deplete resources and cause famine and destitution. As observed by Beer, Hodgskin deemed "increase of population, wants, knowledge, and inventions as the dynamic factors of human society" (Beer, 1984, 207).

Knowledge and division of labor
As already noted, Popular Political Economy is based on four lectures. The first lecture, entitled "The Influence of Knowledge," was published as the second and third chapters of the book, whereas the second lecture, dealing with the division of labor, provided the material for the fourth to sixth chapters. Chapter seven, on exchange, coincides with the third lecture, and the fourth and last lecture was used for the final chapters of the book, which focuses on money and prices.

Tellingly, Hodgskin starts with the issue of knowledge. From his perspective, the division of labor includes a cognitive dimension that he believed was inadequately investigated by Adam Smith, despite having been a key justification of the market order. In an article on "The Great Mind Fallacy," James Otteson contends that:

Hayek is now perhaps the standard-bearer for this position [the notion that knowledge is dispersed in society and cannot possibly be gathered and exploited by a single decision-maker], but he builds on arguments Adam Smith made some two hundred years earlier. (Otteson, 2010, 278)

Smith's meditations on knowledge are chiefly articulated through an investigation into the limits of power, as is evidenced by the well-known indictment of the "man of system" presented in The Theory of Moral Sentiments:

[the man of system] seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder. (Smith, 1759/1982, 234)

Similarly, in The Wealth of Nations, Smith outlines the "obvious and simple system of natural liberty":

The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. (Smith, 1776/1981, 687)

This is the core of Hayek's argument. Although Hayek built on a more sophisticated understanding of economic efforts he elaborates on Smith's contention, providing a clearer understanding of the reason why the sovereign cannot succeed in the attempt of "superintending the industry of private people" and "directing it." He pointed to the importance of knowing the particular circumstances of place and time. This notion can also be discerned—albeit in embryonic form—in Adam Smith, as when he repeatedly stresses that the industrious individual is the best judge of his or her own interest.

Hodgskin admired Smith, but he also believed that the Scottish philosopher had neglected the role played by knowledge in the division of labor, as evidenced by the fact that his magnum opus did not contain a chapter expressly dedicated to this issue (Hodgskin, 1827, 53). The passages we
have quoted do not entirely disprove this contention. Smith’s hostility to the “Great Mind Fallacy” permeates his work, and does not offer any coherent attempt to systematically appraise the role of knowledge in the economy. Hodgskin attempted to fill this gap, building on the thought of Jean-Baptiste Say, who also emphasized the importance of knowledge for economic development (Say, 1834/2001).

*Popular Political Economy* offers a number of observations in Smith’s vein on the decision-maker’s hubris and the calamitous impact of ignorant public policies. However, Hodgskin complements this with an attempt to explain the success of the division of labor by connecting it to the progress of knowledge.

In Hodgskin’s view, this “knowledge” encompasses both formal knowledge and informal know-how, that is, both knowledge that is conveyed and used in a deliberate manner and knowledge that consists of skill and expertise in performing a given task. These different kinds of knowledge are placed along a continuum: Hodgskin stresses that each and any tool and occupation is *de facto* “indebted” to the observations, discoveries, and inventions made in the past.

It is this emphasis on the interdependence of all “circuits of knowledge” and on the creative potential of each individual that the core of Hodgskin’s argument rests. He strives to extend Smith’s well-known observation that “the division of labour is limited by the extent of the market”: the reference to “the extent of the market” stresses its geographical dimension, whereas Hodgskin considers the crucial element to be the number of participants in the market. A more populous country thus provides better opportunities for the division of labor, thereby upending Malthus’ contention by positing a theoretical relation between progress and population increase. For Hodgskin “the foundation of all national greatness is the increase of people” (Hodgskin, 1827, 26). An expanding population multiplies manpower and, thus, the number of minds that apply themselves to solving difficult problems. By his very nature, Hodgskin wrote:

> man is endowed with a productive power commensurate to his wants; and that power enables individuals to rear up families, and maintain in idleness and opulence a number of persons more than themselves. This natural productive power—the gift, not of governments, but of our Creator—is the great source of individual opulence and of national greatness. (Hodgskin, 1827, 27)

For Hodgskin, economics is the study of production and of the laws that govern it. The focus of production is the creative labor of man: from the outset, what characterizes human labor is the contribution of knowledge and wisdom. It permeates all production. Labor, then, is inherently “knowledge-guided.” Hodgskin distinguishes between two forms of labor, “bodily” and “mental,” but even the former cannot be performed in the absence of acquired and applied knowledge:

> The meanest labourer must use some mental exertion, and much of the most common labour is now rendered easy of acquisition by the transmitted habits, knowledge and skill of former generation. (Hodgskin, 1827, 48)

Each task is thus embedded within a stream of knowledge:

> Though agriculture does not supply us with the most striking examples of observation adding to productive power, yet even in this neglected and generally speaking, slave-practised art, we may find numerous examples of the hand of the labourer having been rendered productive by the observations of the philosopher. (Hodgskin, 1827, 55)

In *The Wealth of Nations*, Smith (1776/1981, 17) suggests that the growth of productivity is due “first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.” From this perspective, technological advances are deemed to be among the fruits of the division of labor.

As Smith observes:

> [t]he division of labour, however, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labour. The separation of different trades and employments from one another, seems to have taken place, in consequence of this advantage. This separation too is generally carried furthest in those countries which enjoy the highest de-
gree of industry and improvement (Smith, 1776/1981, 15).

For Smith (1776/1981, 20), “the invention of all those machines by which labour is so much facilitated and abridged, seems to have been originally owing to the division of labour.” By focusing on specific tasks that are exclusively assigned to them, workers “naturally turned their thoughts towards finding out easier and readier methods of performing it” (Smith, 1776/1981, 20). But more often the division of labor allows workers to devise new and improved technologies, because it allows the building of new machines to be “the business of a peculiar trade.” Occasionally, however, improvements are due to the application of “those who are called philosophers or men of speculation, whose trade it is not to do any thing, but to observe every thing” (Smith, 1776/1981, 21).

It is thus specialization that makes technological improvements possible. It does this by establishing conditions that are conducive to technological progress:

[m]en are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object, than when it is dissipated among a great variety of things” (Smith, 1776/1981, 20).

This is consistent with the widely acknowledged role of the division of labor in Smith’s thought as the founding element of a society where people live together and take care of each other’s needs.

Hodgskin contends instead that even the humblest and simplest task could not be carried out absent the knowledge that makes it possible. He is all the more convincing insofar as he “reifies,” so to speak, such knowledge and identifies it with the tools and artifacts that enable any given job to be executed. Hodgskin takes care to specify that he does not refer to the increasingly complex machinery that leads to the growth of productivity: in this case his analysis would not substantially differ from Smith’s. In addition to complex machinery, he also considers ancient and extremely simple tools that are indispensable for a number of tasks:

The most simple instrument in use, such as a common spade, a carpenter’s gimlet, or a sewing needle, by the help of which labour is not merely facilitated, but without which several most useful and necessary daily operations could not possibly be performed, were at one time unknown; and probably required as close observations of the properties of iron and steel – of the form and powers of the human body, so as to adept the digging and sewing instruments to its capabilities – and the gimlet to the purpose of boring rapidly through wood, and bringing to the surface the little pieces it cuts, – as the invention of the steam-engine at a later period required of the properties of caloric, and of the weight of the atmosphere. (Hodgskin, 1827, 74-75)

The first chapter of Popular Political Economy is in fact a long and passionate survey of inventions and discoveries. For Hodgskin it is crucial to point out that such inventions precede and enable the division of labor: they are not “just” a consequence of greater specialization. Discussing progress in philosophy, Smith (1776/1981, 22) observes that as the division of labor spreads, “[e]ach individual becomes more expert in his own peculiar branch, more work is done upon the whole, and the quantity of science is considerably increased by it.” Hodgskin does not overlook the “cumulative” nature of the growth of knowledge, and is aware that “a progress in knowledge, and the division of labour, mutually promote each other” (Hodgskin, 1827, 79) but, as we have seen, he deems knowledge to “precede” the division of labor. (Hodgskin, Ibid.). Observations of the natural world and the development of strategies to cope with it logically precede the division of labor. Hodgskin does not focus on the effects of the division of labor on the creation of knowledge but instead on knowledge as a matter of “logical priority”:

undoubtedly they [people] had learned to make bows and arrows, to catch animals and fish, to cultivate the ground and weave cloth, before some of them dedicated themselves exclusively to making these instruments, to hunting, fishing, agriculture, and weaving. (Hodgskin, Ibid.)

Hodgskin, therefore, does not see any contradiction in stating that “inventions always precede division of labour, and extend it, both by introducing new art and by making commodities at a less cost” (Ibid.). This double impact of innovation—the possibility of exploring new avenues and the reduction of the production costs of established goods—shows how the creation and dissemination of knowledge permeates the economic sphere:

If the reader should imagine that knowledge informing skill only multiplies the means of subsistence, he
will have a very inadequate idea of what it actually performs. It may be almost said to create both the animals and vegetables on which we subsist. (Hodgskin, 1827, 62)

Such a hyperbolic statement illuminates Hodgskin’s contention that no natural resource is a “resource” in and of itself: cows and sheep “in nature” were altogether different “from the large flesh and wool-bearing and milk-giving animals that are nourished by the art of the grazier” (Ibid.). This emphasis on everyday objects and on how only the skillful application of human ingenuity could make natural resources profitable helps us to understand Hodgskin’s yearning to side with “humble” and “normal” people, whom he considers the true beneficiaries of the collective knowledge-creating enterprise. The growth of knowledge that Hodgskin illustrates is wholly “democratized” process: he is aware of the cognitive dimension of any human effort, even those that are entirely practical. The climax in Hodgskin’s survey concerns the steam engine:

The expansive power of steam has been known almost as long as history can trace back the existence of our race; but an immense reach of intellect, numberless observations, a prodigious quantity of knowledge, gathered in all the ages of the world, and a vast variety of experiments, were necessary to devise this engine in its present admirable, but not yet perfect form. (Hodgskin, 1827, 68)

From the quotation above, it is clear that Hodgskin is concerned with something beyond mere “formal” knowledge. Although he does not make explicit the difference between formal and informal knowledge, it is nevertheless clear that Hodgskin not only refers to scientific learning in his discussion of knowledge, but instead to a much more inclusive domain that also encompasses information, observations, ideas, and practical know-how, all of which find concrete application in human labor.

As labor is knowledge-guided, Hodgskin considers tools and machines as similarly knowledge-derived. Within such tools is not only a deep knowledge of production methods, but also information and technical expertise related to their design. It is evident that for Hodgskin knowledge is dispersed in society; its progress is never an exclusively individual endeavor or the isolated effort of a few great minds. This is even true in the case of great innovators such as James Watt:

The influence of society over every individual mind, is paramount to all other things. Perhaps, of the last century, there is no man who stands higher as a philosopher and a mechanic than James Watt; but he was indebted for most of his scientific and mechanical knowledge, or every thing indeed, which constituted his talents, and which contributed to his glorious success, to his having been born in Britain in the 18th century. (Hodgskin, 1827, 87-88)

The creation of knowledge is a collective enterprise, but this does not mean that it is attributable to a collective actor. In contrast, it is an externality that arises from the natural human inclination to make the best use of one’s own facilities. Hodgskin (1827, 97) writes that “independent of all governments and of all their regulations, there is in the universal necessity to labour a universal stimulus for all men to exert those natural faculties with which all are endowed.” In its turn, “this stimulus is at all times the cause of observation, and that observation brings knowledge.” And the midwife of such knowledge is the increase in population:

Our natural faculties, under the influence of this stimulus and this influence of increasing population, lead, without our willing it beforehand, without our ever conjecturing what will be the result, to all those grand and sublime and beneficial consequences—which we call in one comprehensive word, civilization. (Hodgskin, Ibid.)

Here Hodgskin’s indebtedness to Smith is evident. The growth of knowledge takes place “without our willing it beforehand, without our ever conjecturing what will be the result” (Ibid.). It is the outcome of human efforts that are not necessarily coordinated, of cooperation that is not necessarily deliberate, in other words a typical market process. Where Hodgskin departs from Smith is in his emphasis on a principle of population growth that is diametrically opposed to the Malthusian view:

The chances of improvement, it is plain, are great in proportion as the persons are multiplied whose attention is devoted to any particular subject. (...) an increase in the number of persons produces the same effect as communication; for the latter only operates by bringing numbers to think on the same subject. … This principle seems to be amply confirmed by expe-
The operating principle could be summarized as “more people, more ideas, and more growth.” Such an argument might remind a contemporary reader of Hayek’s (1988/1990) energetic promotion of an anti-Malthusian perspective in his last book _The Fatal Conceit_. Hayek explains that “[t]he modern idea that population growth threatens worldwide pauperisation is simply a mistake” (Hayek, 1988/1990, 121). Hayek refers explicitly to Smith and equates population growth with greater division of labor. Population growth prompts a growth in productivity, because “[a] denser population can also employ techniques and technology that would have been useless in more thinly occupied regions.”

Moreover:

[...]

For Hayek, the existence of many “different men” is the element that makes possible the production of more “different ideas” and, therefore, the growth of knowledge. In _The Fatal Conceit_, however, Hayek observes that:

Malthus’s assumption that human labour could be regarded as a more or less homogeneous factor of production (i.e., wage labour was all of the same kind, employed in agriculture, with the same tools and the same opportunities) was not far from the truth in the economic order that then existed (a theoretical two-factor economy). (Hayek, 1988/1990, 122)

**Conceited rulers**

This analysis of the ‘use of knowledge in society’ cannot but correspond to a consistent normative vision. It is in this respect that Hodgskin’s lexicon is again evocative of Hayek’s condemnation of governmental interventionism a century later.

The Austrian School’s criticism of economic planning and—by extension—of governmental interventionism can be traced to the notion that knowledge is dispersed in society; therefore a single decision-maker cannot be fully in command of the needed information to organize all the production decision that would meet consumers’ diverse demands. Hayek is best known for having refined this argument in the calculation debate in the 1930s.17

What is most typical of Hodgskin is the way his steadfast belief in the progress of learning goes together with a radical distrust of the government’s capability to understand and make use of it. The process of knowledge accumulation can only be achieved in the proper institutional setting: the rigidity that characterizes any governmental arrangement is not only unsuitable in and of itself, but also threatens the free flow of information. In _Popular Political Economy_, then, we can discern an early formulation of the idea that governmental encroachments impede the growth of knowledge. It is thus not surprising that Hodgskin appears to appreciate that the price system conveys information. He defines it as:

the index to the wants of society; or it is the finger of Heaven, indicating to all men how they may employ their time and talents most profitably for themselves, and most beneficially for the whole society. (Hodgskin, 1827, 235)

It is the fluctuation of prices that regulates consumption:

If the price of bread were not to rise the instant it is ascertained, or even rendered probable, that the crop of wheat will be short, no persons would be admonished in time to lessen their consumption, or seek for other food than wheaten bread; and before the next harvest famine might ensue. On the other hand, were prices not to fall when the crop is abundant, there would be no stimulus to increased consumption, and the bounties of nature, instead of causing joy and gladness, would turn to mouldiness and corruption. (Hodgskin, Ibid.)

In such a setting, what Hodgskin finds remarkable is less the distinction between natural (the amount of labor needed to produce a given good) and monetary price, than the realization that price variations reflect innovation and the division of labor. More specifically, he contrasts agricultural
prices with the prices of manufactures to suggest that the latter show a more marked decrease than the former thanks to the faster growth of knowledge and more developed division of labor industrial economies enjoy. Therefore, if the price of grain is higher, this is because of the “political condition of the agriculturist, and the manner in which land is appropriated.” (Hodgskin, 1827, 231)

Government interventions can only hinder a process that is harmonious in itself. As Hodgskin remarks in one of his lectures on criminal law:

The people want more food, more clothing, more comforts, more luxuries, more intellectual, and fewer animal pursuits... All these wants can only be satisfied by more freedom, and less taxation. (...) The unrestricted competition which nature establishes, must be the rule for all our transactions; and by the higgling of the market, which is mutual and free action, the salaries of officials, and the payments of the priesthood must be regulated as well as the profit of the shopkeeper, and the wages of the labourer. (Hodgskin, 1857b, 26)

The same understanding of the “higgling of the market” emerges from a long digression on public granaries:

The governments of some countries, distinguished for wisdom, noticing the evils resulting from variations in the seasons, have established public granaries to prevent them, and to equalize the operations of nature; but the merchant buying when and where commodities are cheap, and only selling when and where they are dear, does, in fact, perform, but infinitely better than governments can, all the functions of public granaries. (...) The sharpsightedness of his self-interest is continually on the alert, and he can only obtain a profit as his operations tend to equalize supply and demand. His motives are selfish, but the consequences of his proceedings are not the less beneficial. They are not prescribed by the legislator, but they are a most important part of social order. Trade supplies us with one of the many examples of nature regulating and prescribing our conduct, in cases for which governments (...) thought it was their business to provide. (Hodgskin, 1827, 175)

Although this argument was not new, our concern for is in how Hodgskin frames it. Self-interested traders in grains perform a regulative function by buying and selling their wares. This can be ascribed to the natural order that spontaneously emerges from the interplay of supply and demand, independent of governmental actions. However “eminent in wisdom” such decisions may be, they cannot display the “alertness” of market actors, whose wisdom is not individual but collective.

Hodgskin’s vision echoes the mindset that Dugald Stewart deemed to be typical of Smithian economists, which holds that:

the social order is in the most essential respects, the result of the wisdom of nature, and not of human contrivance; and, therefore, that the proper business of the politician is not to divide his attention among the different parts of a machine, which is by far too complicated for his comprehension; but by protecting the rights of individuals and by allow to each as complete a liberty as is compatible with the perfect security of the rights of his fellow citizens (Stewart, 1792, 184).

The economic realm is thus to be understood rather than regulated. As noted before, Hodgskin consistently defends the “system of natural liberty” against encroachment (Thompson, 1987). Legislative measures have “no other immediate object … but to take or keep from one class and give to another” (Hodgskin, 1827, xx-xxi).

Hodgskin’s focus on knowledge leads him to emphasize the dynamic element of the “system of natural liberty.” Observing that the “creation” of knowledge to some extent precedes the division of labor and broadens the scope of knowledge. This is particularly evident where he deals with the issue of paper money. Embracing free banking, Hodgskin not only rejects all pretenses for regulation (the emission of bank notes does not have “more need to be regulated by meddling statesmen, than the business of paper making” (Hodgskin, 1827, 218)), but also contends that issuing bank notes and the business of banking, must be conducted on some settled principles to make them advantageous, is quite certain; but to expound those principles, is the duty of the persons who write on the art of banking. (Hodgskin, 1827, 217)

Banking, no less than other endeavors, necessitates knowledge of the specific circumstances of time and place. This industry, therefore, must operate under a free and decentralized process.
In attacking those who “have carried political economy into Parliament,” Hodgskin recognizes their efforts “to substitute, as the basis of legislation, their imperfect knowledge, for the much more imperfect knowledge (...) of previous legislators.” (Hodgskin, 1827, 40) This notwithstanding, such knowledge cannot but be imperfect, as the creation and sharing of information is an open and evolving social enterprise. It is for this reason that Hodgskin characterizes his political economy as something different from “a meddling, factious, ambitious science,—not a political science, prescribing regulations for society, or dictating duties to men” (Hodgskin, 1827, 38-39). The identification of natural laws can provide insights into the perverse consequences of government policies, but cannot help governments in their efforts to address particular and specific problems of production, since such problems elicit different answers from different individuals situated in different circumstances.

James Buchanan has succinctly pointed out that the allocation-distribution result of the market “does not, and cannot, exist independently of the trading process” (Buchanan, 1982/1999, 244). Hodgskin would have agreed:

No man can say how industry may be rendered most productive; for this is the continually varying result of the practical knowledge of all mankind. Rejecting all notice of the arts, political economy can never inform us how the hand may be made skillful. The science observes the close connexion between individual gain and the general welfare; but it does not pretend to direct the operations of the merchant, the trader, or the farmer, any more than those of the engineer; nor the labour of the ship-owner, any more than those of the shipwright and smith. The utmost extent of its utility in promoting opulence is, that statesmen may learn from it, if they, being among the most bigoted, ignorant, and presumptuous of mankind, are capable of learning anything, how they may cease to check that production, which they, like the science itself, cannot possibly promote. (Hodgskin, 1827, 39)

The “system of natural liberty” enjoys outstanding adaptability that governments can impede but not possibly improve. Hodgskin’s political philosophy is thus sustained by the contrast between a progressive and dynamic society and rigid public institutions that suppress change. This last feature is predicated on the former: it is society’s unceasing change and never-ending evolution that makes public intervention obsolete as soon as they are attempted.

Replacing the imperfect knowledge of today’s lawmaker for the no less imperfect knowledge of yesterday’s lawmaker cannot possibly improve the future circumstances of society. In a polemical allusion to the colonial ambitions of his times, Hodgskin argues that:

[w]e might pardon the presumption of men who should endeavour to legislate for a distant country, which they only knew by report. But what terms can express the absurdity of legislating for an unborn world, of the whole circumstances of which we are necessarily ignorant? (Hodgskin, 1820 I, xi)

The only policy that Hodgskin recommends governments to pursue is a policy of non-intervention: abstaining from measures that cannot but slow down society’s spontaneous accumulation of knowledge and welfare.

Conclusion
The Hodgskin scholar David Stack contends that the path from Hodgskin to Hayek is “just as tortuous as that [from Hodgskin] to Marx” (Stack, 1998, 205). Undoubtedly, the key element that separates the thought of the British radical from that of the Austrian social philosopher is whether capital ought to be remunerated or, in other terms, whether labor is the real factor of production. However problematic and inherently treacherous the attempt of contrasting thinkers that operated in very different social and intellectual settings may be, it remains clear that both Hodgskin and Hayek focused on three central issues:

1. The importance of knowledge in a market economy,
2. A notion of knowledge that is not confined to scientific knowledge, but also includes practical skills,
3. And radical skepticism about the ability of governments to gather and use the knowledge that is required for “steering” economic life effectively.

Despite these similarities, it is an established fact that Hodgskin is nowhere to be found among the pantheon of Hayek’s authorities. It is likewise clear that Hayek, as opposed to Hodgskin, can in no way be said to have an anarchical bent. Nor can Hayek be said to share Hodgskin’s unequivocal faith in progress.

It is nevertheless worth noting how Hodgskin’s arguments about the dissemination of knowledge and the conceit of government build on Smithian thought in a way that is surprisingly in tune with Hayek’s understanding of Smith...
It would be difficult to find a thinker who might serve as a “missing link” between Hayek and Smith better than Hodgskin.

NOTES

1 Renée Prendergast (2010) suggests that the emphasis on the accumulation of knowledge, as opposed to the accumulation of capital, was a central element in the thought of a number of predecessors of Adam Smith and that this element was subsequently reclaimed by other thinkers, Hodgskin among them.

2 On the role of The Economist in spreading the ideas of laissez-faire in Victorian Britain, see Gordon (1955).

3 To what extent Hodgskin influenced the thought of his younger colleague Spencer can only be speculated about. In his Autobiography, Spencer mentions Hodgskin without revealing any particular degree of gratitude or attachment. However, it is important to note that Spencer showed a consistent reluctance to acknowledge any intellectual indebtedness that might cast his unalloyed originality into question. See Spencer (1904).

4 The relatively successful reception of Hodgskin can perhaps be explained by the fact that—as observed by William Stafford—by signing as “A Labourer” he was the first to speak “from labourer to labourer” (Stafford, 1987, 232).

5 In his wide-ranging essay on Hodgskin, David Stack persuasively shows that there is no evidence that Hodgskin and Godwin met (Stack, 1998, 66-69).

6 In particular, Stewart (1851).

7 Samuel Hollander (1995, 141) observes that “no serious dependency on the part of Hodgskin upon Ricardian theory is discernible.”

8 Werner Stark (1943, 85) also contends that Hodgskin “saw only the negative, and refused to see the positive, side of socialism.”

9 In The Wealth of Nations there are numberless scattered remarks, which show that Dr. Smith was aware of the influence of knowledge in adding to productive power; yet he has not dedicated any part of his book expressly to this subject” (Hodgskin, 1827, 53).

10 As Hayek (1945/1948, 80) writes: “there is beyond question a body of very important but unorganized knowledge which cannot possibly be called scientific in the sense of knowledge of general rules: the knowledge of the particular circumstances of time and place … We need to remember only how much we have to learn in any occupation after we have completed our theoretical training, how big a part of our working life we spend learning particular jobs, and how valuable an asset in all walks of life is knowledge of people, of local conditions, and of special circumstances.”

11 In Book III of The Wealth of Nations, Smith observes that “[t]o improve land with profit, like all other commercial projects, requires an exact attention to small savings and small gains, of which a man born to a great fortune, even though naturally frugal, is very seldom capable” (Smith, 1776/1981, 385). From this excerpt clearly emerges how any gain in productivity depends on the concrete knowledge of the conditions of specific land: extensive land and vast property holdings can blunt the landlord’s interest in making the most of the necessary knowledge to obtain profits.

12 Thus the object of political economy is to discover ALL the natural laws and circumstances, which influence and regulate the production of wealth” (Hodgskin, 1827, 42).

13 In Hodgskin’s view, mental labor (“the labour of observing and ascertaining by what means the material world will give us most wealth”) and physical labor (“the labour of carrying those means, when ascertained, into execution”) are both necessary for production. It is worth noting how the juxtaposition of the two species of labor, which characterizes Hodgskin’s work in its entirety, broadens the very definition of labor to the point that the reduction all production factors to labor becomes less unlikely.

14 At the same time, however, “without practical manual skill, the most elaborate learning may be of no use” and “without dexterous workmen, the most ingenious contrivances must be classed merely as visionary dreams” (Hodgskin, 1827, 91).

15 This is not surprising, when one remembers that until the mid-1800s even highly technical professions such as engineering were basically learned through apprenticeships with established practitioners. The distinction between formal knowledge and knowledge of the particular circumstances in time and place is an important notion in Hayek, although he referred to a modern academic environment and was mainly preoccupied with the “pretense of knowledge” of his colleagues. Hodgskin’s critical evaluation of the “pretense of knowledge” refers to an altogether different setting.
It is worth noting that Adam Smith was likewise aware of this point. In his Considerations Concerning the First Formation of Languages (1767/1985, 223) Smith, discussing the "simplification of language, notes that "[i]t is in this manner that language becomes more simple in its rudiments and principles, just in proportion as it grows more complex in its composition, and the same thing has happened in it, which commonly happens with regard to mechanical engines. All machines are generally, when first invented, extremely complex in their principles, and there is often a particular principle of motion for every particular movement which it is intended they should perform. Succeeding improvers observe, that one principle may be so applied as to produce several of those movements; and thus the machine becomes gradually more and more simple, and produces its effects with fewer wheels, and fewer principles of motion." This observation on the progressive simplification of the operation of mechanical tools is an amazing insight in light of the technological progress of the last century.

For a useful overview of the debate on economic calculation, see Lavoie (1985).

Hodgskin gave two lectures: May 20, 1857 and June 3, 1857 at St. Martin's Hall. Hodgskin's goal was to show that we should avoid creating criminals, as is indicated by the title of the first lecture.

As is well-known, in his "Digression Concerning the Corn Trade and the Corn Laws, Smith contends that "[t]he unlimited, unrestrained freedom of the corn trade, as it is the only effectual preventative of the miseries of a famine, so it is the best palliative of the inconveniences of a dearth" (Smith, 1776/1981, 527). It is worth noting that the same topic is taken up by Burke (1795/1990).

This is not a new element in Hodgskin's thought. In his Travels he was already noting: "Creating a legislative assembly supposes a necessity to make laws, and it encourages that desire to legislate which has already been so productive of evil. The doctrines of political economy have taught us that there exist laws made by nature which are eminently productive of prosperity" (Hodgskin, 1820, I, 464).

On free banking, see Smith (1936/1990). It is germane to observe, for the purposes of this essay, that the PhD dissertation of Vera Lutz, completed under Hayek's supervision, lacks any reference to Thomas Hodgskin. Hodgskin is however listed among the free bankers by White (1984/2008).

In contrast, Hodgskin censures the operations of the Bank of England, whose inflationary inclinations are hidden by its political support.

Stack's blunt characterization, however, appears to be informed by a rather biased understanding of Hayek: "Hodgskin's case for free trade was premised on a free society and a sociability of man, which stood in stark contrast to Hayek's denial of the necessity of democracy, and the individualism of the New Right" (Stack, 1998, 205).

How exactly this kind of knowledge ought to be understood is an issue that progressively assumes different outlines in Hayek's thought (see Oguz, 2009).

The only evidence of Hayek being somehow acquainted with Hodgskin's thought is a footnote in Hayek (1955, 239, n. 313), where he references a letter from Hodgskin quoted in Halevy (1956) as proof of Saint-Simonian influence—also noteworthy that—at least in the mid-20th century—one of the central problems for Hayek appears to have been his effort to overcome the heritage of the British liberalism of the previous century. This issue is particularly emphasized by Burgin (2013).

That Smith's lesson is a constant reference point for Hayek is all too clear. For a sympathetic portrayal of Adam Smith through Hayek's eyes, see Hayek (1976).

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If Not Left-Libertarianism, then What? A Fourth Way out of the Dilemma Facing Libertarianism

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Abstract: Can the theories and approaches that fall under the more or less overlapping labels “classical liberalism” or “libertarianism” be saved from themselves? By adhering too dogmatically to their principles, libertarians may have painted themselves into a corner. They have generally failed to generate broad political or even intellectual support. Some of the reasons for this isolation include their reluctance to recognize the multiplicity of ways order emerges in different contexts and, more significantly, their unshakable faith in the virtues of free markets renders them somewhat blind to economic inequalities; their strict construction of property rights and profound distrust of state institutions leave them unable to recommend public policies that could alleviate such problems.

The doctrine advanced by “left-libertarians” and market socialists address these substantive weaknesses in ways that are examined in detail in this paper. But I argue that these “third way” movements do not stand any better chance than libertarianism tout court to become a viable and powerful political force. The deeply paradoxical character of their ideas would make it very difficult for any party or leader to gain political traction by building an election platform on them. Taking this into account, I sketch an alternative “fourth way” perspective. Drawing on a few postmodern insights, while staying clear of the illiberal proclivities of radical postmodern thinkers, this approach suggests that the resources of civil society can be mobilized at the level of micro-politics to achieve at least some of the goals and values dear to libertarians while also attempting to remedy injustices along the lines of what left-libertarians and market socialists have proposed.

Keywords: Left-libertarianism, market socialism, economic rent, Henry George, Léon Walras, micro-politics, Ruth Lane

INTRODUCTION

The question this paper tackles is this: Can the constellation of theories and approaches that fall under the more or less overlapping and not very precise labels “classical liberalism” or “libertarianism” be saved from themselves? Before I outline the dangers they face, which result in part from what can best be described as self-inflicted wounds, I should explain first why they are worth saving. There are at least three reasons why this is a worthwhile exercise in philosophical reflection. From an epistemological standpoint, these approaches best capture the still relatively neglected, yet profoundly insightful intuition that much of the socio-economic world operates according to the logic of a spontaneous order. Second, economically liberalized markets generate the greatest amount of material goods compared to any other economic system. Finally, liberal regimes, though prone to various sorts of dysfunctional excesses (e.g., rent-seeking behaviours), are the least likely to violate the rights of their citizens.
But by adhering too dogmatically to these principles, libertarians\(^2\) have sometimes painted themselves into a corner. This dogmatism limits libertarians’ ability to generate broad political or even intellectual support. To give an account of these self-inflicted wounds, I again make use of the same three dimensions. With regard to epistemology, Hayekian libertarians adhere a little too rigidly to the notion of spontaneous order and, as Gus diZerega (2013) argues, often fail to recognize the multiplicity of ways order emerges in different contexts. Further, libertarians’ economic, social and political views account for their political weakness. (I am targeting bona fide libertarians; several political parties, for example, the Republican party in the United States and conservative parties in Australia, Canada, and the United Kingdom have included libertarian ideas and slogans in their political programs, of course, but their electoral success has been due to their ability to combine these with other priorities that appeal to a broad spectrum of constituencies, and have resulted in programs and policies that cannot be fully reconciled with libertarian norms and values, such as devoting a considerable proportion of the budget to military expenditures.)

Generally, the libertarians’ unshakeable faith in the virtues of free markets renders them somewhat blind to economic inequalities and their attendant political issues; their strict construction of property rights and profound distrust of state institutions render them unable to recommend public policies that could alleviate such problems. I prefaced these criticisms with the qualifier “generally” because they obviously lack finesse. Libertarians (e.g., Pennington, 2011; Tomasi, 2012) have addressed these criticisms by pointing out that both from a theoretical standpoint and in practical terms, free markets can generate effective and principled responses to real and perceived injustices. Others, however, have been willing to concede that new policy directions and even a reformulation of the libertarian doctrine are required. At the moment, the preferred policy innovation favoured by libertarians is the replacement of some or most of the programs associated with the welfare state by a Basic Income Guarantee (BIG), an unconditional income paid to each and every individual and pegged at a level that would allow recipients to meet their basic needs (Murray, 2006; Gordon, 2014). More substantial revisions of the libertarian doctrine are advanced by “left-libertarians” and market socialists.\(^3\) I explain further below in much greater detail what differences separate classical liberalism/libertarianism from these offshoots; at this point it suffices to say that they involve significant deviations from the libertarian commitment to the unconstrained use of property rights. In this paper, I am concerned mostly with the former, and with the question of whether left-libertarianism stands any better chance than libertarianism tout court to become a viable and powerful political force, rallying both the advocates of freedom and of a minimalist version of “social justice.”

All these developments are occurring against the background of the deepening crisis of the welfare state, such as the concerns about the financial sustainability of universal and publicly funded pensions plans. The welfare state historically emerged as an attempt to find a third way between 19\(^{th}\) century-style classical liberalism and socialism. In the wake of the Great Depression, many perceived Capitalism as unable to provide stable employment and minimum standards of justice to the majority of wage earners; however, many saw that socialism, especially Soviet-style socialism, posed an evident threat to liberty and democracy. On the intellectual front, an egalitarian re-interpretation of liberalism originating in the writings of T.H. Green and Leonard Hobhouse, culminating in John Rawls’ political theory, had helped to legitimize the welfare state, while John Maynard Keynes’ macroeconomics provided the economic justification for massive welfare state expenditures. However, Keynesianism failure to deal with the stagflation of the late 1970s coupled with the worsening fiscal position of most western liberal democracies, has led to a refocusing of priorities. While in practice, interventionist economic policies have remained largely untouched, political rhetoric and philosophical discourse has, once again, shifted in the direction of free markets and libertarian principles. (The critics of this trend refer to it as the rise of “neoliberalism.”) Yet, the consequences of the Great Recession has slowed the trend toward market-oriented policies. As a result of the ambivalence about both market-oriented policies and interventionist programs, left-libertarian seeking a third way have an opportunity to present new policies promoting the best parts of market policies, while still providing a defense of a social safety net. But if political theorists are excited about such prospects, political inertia remains a major challenge for those who would reform the welfare state. The enormous influence of rent-seekers in both the public sector and the world of business—even if they pursue opposite short-term goals—combine to make institutional and policy innovations extraordinarily difficult. While in a sense very peculiar to the American constitutional system, the “gridlock” that has paralysed Washington in recent years is symbolic of the inability of liberal democracies to move radically in new directions (or even to experiment with relatively more modest changes).
Thomas Malthus. In spite of his relentless efforts to validate Ricardo, although Ricardo himself acknowledged his debt to the chances that they will provide a new platform for social and political change in the next few years are very slim. Taking this into account, I sketch out in the last section an alternative “fourth way” perspective. Drawing from certain postmodern concepts, while staying clear of the illiberal proclivities characteristic of the most radical postmodern thinkers, this putative fourth way traces a path running between the polar opposites of the modernist privileging of structured arrangements (e.g., the state or the market order) and the postmodern discounting of any foundational principle or institutional rule. This approach discerns in the fluidity and complexity of civil society opportunities for pursuing the goals proclaimed by left-libertarians, including concerns for remedying injustices; such opportunities can be explored at the level of micro-politics, not necessarily in opposition to ordinary channels and institutional settings, but rather as an added and still largely unfamiliar layer of reality.

THE PROMISE AND PITFALLS OF CONTEMPORARY THIRD WAY IDEOLOGIES

2.1 Left-Libertarianism

Toward the end of the 19th century, several market-oriented thinkers began to focus their attention on the injustices and social problems plagued their societies. These thinkers developed a synthetic perspective that borrowed from socialism, which they disapproved of it, and Christianity in order to render market economies more compatible with social justice. In some ways, they laid the ground work for today’s left-libertarianism. Henry George in the English-speaking world and of Léon Walras or Alfred Fouillée in the French-speaking world particularly contributed to this emerging strain of thought.

To sum up facetiously the paradigmatic ideas that run from George via Walras to contemporary left-libertarians, one could say that it is a long rant about rents! For them, economic rent is the one thing that is fundamentally wrong with free markets. They are prepared to consider unorthodox methods, even flirting with socialism, to rectify that problem. The modern theory of rent goes back to David Ricardo, although Ricardo himself acknowledged his debt to Thomas Malthus. In spite of his relentless efforts to validate the labour theory of value, Ricardo recognized that the price of land depends on the scarcity of arable land. The return to land itself—the “original and indestructible” power of the soil, and not the buildings or other works undertaken on that land—reflects the shifting balance between supply and demand. The increasing population and commensurate increase in demand for goods combined with the diminishing returns on agricultural production resulted in the use of traditionally fallow lands and the further increase in the price of better parcels. Contrary to (what was then) common sense, he argued that the price of wheat (“corn”) does not go up because the rent paid to landowners increases but rather because it is the other way around. The value (price) of land fluctuates for reasons that have nothing to do with the actions of the landowners themselves, although some parcels of physical land can be valued more than others as a result of improvements or the addition of valued buildings. Machines become obsolete, human skills usually require constant exercise and retraining, but land as such is always usable.

Just “sitting” on land often proves to be a profitable option, especially in an urban environment. This is the reason why both George and Walras thought that no progress toward greater equity could be achieved without first doing away with the private appropriation of rent. Their critiques were strikingly similar in two respects: first, in terms of the economic and factual causes of economic inequality and, second, in terms of the normative grounds that would justify a radical change in the ownership regime of land. Both George and Walras argued that when economic growth occurs, landowners are in a position to capture an increasing fraction of the total wealth that is produced. George put it dramatically in these terms:

Wages and interests do not depend upon the produce of labor and capital, but upon what is left after rent is taken out; or, upon the produce which they could obtain without paying rent—that is, from the poorest land in use. And hence, no matter what the increase in productive power, if the increase in rent keeps pace with it, neither wages nor interest can increase.

(George, 1879/1929, 171)

Similarly, but in a more measured tone, Walras thought that he had demonstrated that:

[i]n a progressive economy, the price of labour (wages) remaining substantially unchanged, the price of land services (rent) will rise appreciably and the price of
capital services (the interest charge) will fall appreciably. (Walras, 1926/1954, 390-91)

Somewhat more tentatively and indirectly, Hans Maks (2006) argues that an analysis of Walras’ mathematical model reveals that supplementary conditions are required to enable the groping process (tatonnement) to reach or tend toward equilibrium; it does not work well in the face of severe inequalities of income. The extent to which Walras himself was aware of the implication of his model is unclear but according to Maks (2006, 34) he was suggesting that one way of ensuring that the equilibrium would be reached would be to create a large middle class and to limit the number of very rich or very poor agents. Landowners capturing large rents not only acquire more than they deserve (since they do not actively produce wealth), but play a dysfunctional role in a competitive market. Walras logically concludes that:

[t]he fact of the appreciation of the land rent in a progressive society is a fact well proved by experience and well explained by reasoning, from which one concludes that to leave land to individuals, instead of reserving them for the state, implies allowing a parasitical class taking advantage of the enrichment that should instead satisfy the always growing demand for public services. (Walras, 1896, cited in Foldvary, 2008, 95)

Both George and Walras appealed to natural rights theory. In essence, natural rights theory claims that we legitimately own our productive capacities and talents, whereas land is given to all. Contrary to Locke, whose theory on this point is admittedly somewhat ambiguous, self-ownership implies that we own the fruits of our labour but never the land on which we work. Natural law figures prominently in Walras’ writings. In his “Theory of Property,” found in Book II of his Etudes d’économie sociale, Walras offers the following “theorems”:

Theorem I: Personal capacities are, by natural right, the property of the individual (Walras, 1896, 214).

Theorem II: Land is, by natural right, the property of the state (Walras, 1896, 218)

The same theme reoccurs in a number of places, such as in his “La paix par la justice social et le libre échange” (Walras, 1907/1987). Individuals are entitled to what they produce—in fact should not be taxed on what they earn; land belongs to the state from which it can derive the revenues it needs. In this sense Walras was an early precursor of left-libertarianism (Bourdeau, 2006; Gharbi and Richiardi, 2010). The parallel with George in this respect is unmistakable. George also appealed to natural law to ground his theory. The individual-effort justification of private ownership was the cornerstone of his vision of social relations:

[A]s nature gives only to labor, the exertion of labor in production is the only title to exclusive possession. The right of ownership that springs from labor excludes the possibility of any other right of ownership. If a man be rightfully entitled to the produce of his labor, then no one can be rightfully entitled to the ownership of anything which is not the produce of his labor or the labor of someone else from whom the right has passed to him (George, 1979/1929, 336).

However, the ownership of land is another category altogether:

The real and natural distinction is between things which are the produce of labor and things which are the gratuitous offering of nature; or, to adopt the terms of political economy, between wealth and land. These two classes of things are in essence and relations widely different, and to class them together as property is to confuse all thought when we come to consider the justice or the injustice, the right or the wrong of property (George, 1879/1929, 337).

This leads him to conclude that “[w]hatever may be said of the institution of private property in land, it is therefore plain that it cannot be defended on the score of justice” (George, 1879/1929, 338). No natural right exists with respect to the ownership of land: “The equal right of all men to the use of land is as clear as the equal right to breathe the air—it is a right proclaimed by the fact of their existence” (Ibid.).

The French philosopher Alfred Fouillée can be regarded as another distant forerunner of left-libertarianism. Although a detailed examination of his thought goes beyond the purposes of this paper (see Dobuzinskis, 2008, 2011), there is one aspect of Fouillé’s contribution to political economy that deserves to be noted, since it points to current debates among left-libertarians; it is the question of how far the net should be cast when it comes to catching unfair benefits from rents. Fouillé’s critique of rents went beyond land
rights. Although he too was aware of the anomaly represented by wild increases in the price of land (Fouillée, 1884, 41-2), he argued that unearned rent is primarily derived from the use of (and unequal access to) what he called "social property," by which he meant not only state-owned land and other forms of property but also in addition a "social fund" or a "capital of collective force" (Fouillée, 1884, 156).

This includes the institutions, intellectual assets, and publicly owned resources that play a crucial role in the development of economic agents' productive capabilities: the education they receive, the scientific knowledge they use, the roads and bridges that the state makes freely available to all and so on. All these things provide benefits or rents to individuals, who thus cannot claim complete and unencumbered ownership of everything they produce. According to Fouillée, even an individual's right to vote is a sort of shared public good (Fouillée, 1884, 161-77). Elections guarantee social collaboration and peace that are essential ingredients for economic production. Fouillée attempted to refute both socialism and liberalism for their unbalanced views on property. Socialism, he argued, only sees the good in social property and thus desires to turn all existing private property into social property; liberalism, by contrast, aims at extending the realm of private property to the point of taking away from the state all that it owns (Fouillée, 1884, ix).10

To sum up, George, Walras, and Fouillée reached comparable but somewhat different conclusions. Both George and Walras recommended the public ownership of land; they also argued that this should be the only source of revenues for the state (as in George’s "single tax"). Since individuals, for both George and Walras, are entitled to all the produce of their own labour or natural capacities, it would be illegitimate for the state to attempt to appropriate even a fraction of it. Fouillée, on the other hand, was not as fervent of a supporter of the public ownership of land, but did support public ownership where he thought it could be feasibly instituted. Further since Fouillée believed rents can be derived from much more than land, individuals owe a debt to the community that the state can collect in a variety of taxes.

These ideas point in the direction of modern left-libertarianism. The basic tenets of that approach cannot, however, be fully understood simply by going back to George or Walras. Contemporary left-libertarians (see Steiner, 1994; Vallentyne and Steiner, 2000; Tideman and Vallentyne, 2001; Otsuka 2003) share libertarianism’s commitment to Locke’s axiomatic notion of self-ownership—indeed most contributors to this approach very clearly acknowledge their debt to Locke (e.g. Otsuka, 2003, 2), but they reach different conclusions on the subject of the appropriation of external goods, and natural resources in particular. (What left-libertarians include or do not include under the rubric of “natural resources” varies quite a bit from author to author; Georgists, for example, are only interested in land, while others, such as Hillel Steiner, include genes and their developmental effects.)

Self-ownership implies full control over one’s body and person, and over one’s actions. On this point, left-libertarians agree with libertarians tout court and many classical liberals (although Hayek, for one, does not appeal to that norm). Where left-libertarians dissent from libertarian orthodoxy is with respect to the implications of the use or appropriation of natural resources. Libertarians (e.g. Feser, 2005) either categorically deny that the appropriation of natural resources creates any obligation, rejecting the Lockean proviso; or they accept the Lockean proviso but offer a rather limited interpretation of its implications. Robert Nozick (1974), for example, argues that as long as those who did not appropriate a resource are not made worse off by those who did appropriate it, the latter group owes nothing to the former group. Although some left-libertarians (e.g. Grunebaum, 2000) go as far as to deny the right to appropriate natural resources, which they argue should be held in common, most left-libertarians fall somewhere between these two extremes. While they accept the principle that one can individually access natural resources, and perhaps even unilaterally assert a right of ownership, they offer more restrictive interpretations of the Lockean proviso. Peter Vallentyne, for example, agrees with Otsuka (2003) that:

"[t]he Lockean proviso [requires] that one leaves enough for others to have an opportunity for well-being that is at least as good as the opportunities for well-being that one obtained in using or appropriating the natural resources. Individuals who leave less that their excess share to those deprived of their fair share. (Vallentyne, 2009, 149)

This rights-based approach is the most common among left-libertarians, but similar conclusions can be reached from the standpoint of just desert. The idea here—which is evident in George’s works—is that revenues from rents are not earned and, therefore, are the source of unfair advantages which can be justifiably taxed. This desert-based perspective is actually a special case of the rights-based one: “it interprets the Lockean proviso as requiring that one leave an
of equally valuable per capita share of natural resources for others” (Vallentyne, 2009, 138). Those who use more than their share owe others compensation. Or—and this is why I say it is a particular interpretation of the Lockean proviso—since natural resources typically produce rents, everyone should be entitled to an equal share of such rents.

However, at this point I want to challenge Vallentyne’s (2009, 149) contention that “equal share libertarians” are not capable of offsetting “disadvantages in unchosen internal endowments (e.g., the effects of genes or childhood environment).” It is rather odd to include “genes” among the factors that define “natural resources,” as a few authors in the left-libertarian camp have attempted to do so (e.g., Steiner, 2000). But “childhood environment” can be subsumed under Fouillée’s aforementioned concept of “social property”; such social assets are the sources of significant rents that go a long way toward explaining differences in productivity and income. According to this view, it is thus fair to tax benefits derived from unequal access to education and other comparable social assets. Of course, measuring that difference would be a difficult empirical problem and much care should be taken so as not to create severe disincentives; however, as a matter of principle, it is reasonable to admit that within realistic limits, progressive income taxation is justifiable. Differences in income or wealth are inevitably due in part to brute luck, inheritance and rents derived from “social property.” One cannot, therefore, reduce the doctrine of “equal share libertarians” to George’s single tax on land.

2.2 Toward market socialism?

After the collapse of Soviet communism, some advocates of a transition to democratic socialism have sought to demarcate themselves radically from centralized planning, espousing “market socialism” (e.g. John Roemer, David Miller, Julian Le Grand, James Yunker, Ted Burczak). The sort of “market socialism” I have in mind here is distinct from Enrico Leone, Oskar Lange and others’ misappropriation of Walras’s general equilibrium model which only utilized Walras’ “theoretical economics” rather than integrating Walras’s “applied” and “social economics.” Lange and the early “market socialists” were rigorously criticized by Ludwig von Mises and Friedrich Hayek during the the “socialist calculation debate” of the 1930s.

Although Roemer is a little more ambiguous on this point, what contemporary market socialists (e.g., Miller [1989] and Burczak [2006]) have in mind are real-life markets. The market socialism I discuss here is also distinct from the Chinese or Vietnamese systems, as contemporary market socialists intend their system to be democratic.

Today left-libertarianism and market socialism are distinct, albeit not antagonistic, camps. However, precursors to contemporary left-libertarianism either consciously attempted or have later been interpreted to have attempted to create a synthesis between capitalism and socialism. Doing away with private ownership of land could—at least in theory—be interpreted as moving from the capitalist status quo toward a socialist utopia. (I say “in theory” because both George and Walras depicted the transition to a society where the private ownership of land would have disappeared as a very gradual process, the effects of which would not be very noticeable at first.) Certainly some socialists, especially in the British Labour Party, considered George to be on their side. As for Walras (1987), he explicitly declared himself in favour of a march toward socialism, albeit of a “liberal and humanitarian” sort. He also supported the cooperative movement. A society where cooperatives flourish and in which land has been nationalized would quite plausibly qualify as one in which market socialism has triumphed. As for Fouillée’s “solidarism,” it was intended to be step beyond the antinomy between liberalism and socialism by imagining a social contract that obligated those who had disproportionately benefited from “social property.” The respective thinkers, although advocating for radically new policies, believed that governments could implement these new policies without radically changing the economic system.

In other words, these three thinkers can only be described as socialists in a very particularistic and heterodox meaning of the word. All three were acerbic critics of many currents of socialism, particularly its Marxist variants. “It annoyed George to be called a socialist”; inversely, “Karl Marx regarded George with disdain” (Wenzer, 1997, 139). George (1898, 198) raises several objections to socialism. First, it is not scientific because while “science… is concerned with natural law,” socialism “takes no account of natural laws.” Second, according to George, as socialism is not grounded in natural law, “socialism “takes no account of natural laws.” Second, according to George, as socialism is not grounded in religion, it “is [thus] more destitute of any guiding principle than any philosophy I know of.” Finally, and less controversially, “it has no system of individual rights whereby it can define the extent to which the individual is entitled to liberty or to which the state may go in restraining it.” To these three arguments, Charles McCann (2008, 76) notes that George added a fourth objection, pressing Hayek’s theory of spontaneous order: “the fatal defect of socialism” lies in its ignorance of the fact that “any attempt to carry conscious regulation and direction beyond the narrow sphere of social
life in which it is necessary, inevitably works injury, hindering even what it is intended to help" (George, 1898, 391, cited in McCann 2008, 76). This is because, as George (1898, 393; McCann, 76) states, there are fundamentally two types of cooperation: directed action which fails to take advantage of human physical and intellectual capacities, and undirected or spontaneous cooperation which does maximize such potentials.13

Walras did not have high regard for contemporary socialists as well. He devoted a book to a refutation of what he viewed as Proudhon’s misunderstanding of economics and criticized Proudhon theory of taxation (Walras, 1860). Elsewhere (letter to Edmond Schérer, in Walras 1896), Walras explained at some length what he judged to be the strengths and weaknesses of liberalism and socialism. He considered both systems to be flawed, but his criticisms of socialism were more devastating. Although he admitted that there were significant differences among the doctrines he reviewed, he faulted them all for pursuing “one and the same goal, and this goal is the purest morality, the greatest, the most complete and universal welfare, it is, as [Schérer] said, an earthly paradise” (Walras, 1896, 6). Then comes the rhetorical coup-de-grâce: “socialism has thus a character as absolute as its principle: dogmatism in its scientific method, despotism in its political process” (ibid.).

Both Walras and Fouillée claimed that they wished to construct a synthesis of liberalism and socialism that would retain the best aspects of each. Yet, both thinkers appear to have found very few aspects of socialism worth retaining. Fouillée was especially critical of socialism. It was for him essentially a system based on coercion: by definition, socialism consists of the socialization of production, and/or distribution, and/or consumption, with corresponding degrees of coercion. Socialization necessarily “implies the authority of the group over the individual and not only when the individual violates the rights of another someone else, but in the name of the economic interest of the group which becomes the supreme law for all” (Fouillée, 1914, 31). It wrongly pretends to identify the “only” possible future for humankind (Fouillée, 1914b). Even more forcefully, he blamed socialism for being reactionary: “The socialist declaration of rights leads to the abrogation of the declaration of the rights of man and the citizen,14 it is the restoration of ancient absolutism under the guise of the collectivity, even more omnipotent and oppressive than the monarchy” (Fouillée, 1930, 155).

Thus we have to look elsewhere than these odd “socialists” in order to locate the intellectual roots of market socialism. As mentioned already, Proudhon was unquestionably its first serious theorist, however, Proudhon never gained a substantial following. Indeed, market socialism remained a relatively marginal intellectual movement throughout most of the nineteenth and twentieth centuries. At the level of practice, however, it began to take shape as a result of the growth of the cooperative movement in the United States, Britain, France, and a few other countries. In the 1960s and 1970s, Tito’s Yugoslavia served as an imperfect but not dysfunctional example of an economic system in which worker-managed firms were the main players. And in the realm of social thought, market or democratic socialism received much attention from several prominent British intellectuals, notably D. G. H. Cole (an advocate of guild socialism), George Orwell, and William Morris (see Griffiths, 2006).

But it was only during the last two decades of the twentieth century that market socialism—with a deliberate emphasis on the market side of this concept—became a coherent and distinctive movement. Two developments account for this evolution. First, the collapse of the Soviet Bloc provided dramatic evidence that planned economies are unsustainable. Second rise to power of Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States resulted in a shifting away from the Keynesian welfare state.15 Within this context, free-market advocates, particularly Hayek, gained new legitimacy in the public arena. The Hayekian argument about the epistemological superiority of markets in utilizing dispersed knowledge to coordinate action could no longer be ignored.

From then on, socialists were put in a position where they had to take this argument seriously. Although resisted by some, several theorists, notably David Miller (1989), John Roemer (1994), and Ted Burczak (2006), have fully accepted the important coordinating role played by the market, but draw different conclusion than Hayek with respect to the ownership and/or management of firms. For them, the principal interveners in market relations should over time become worker-owned or at least worker-managed cooperatives (or similar entities). The state would have few economic responsibilities and would not intervene in the functioning of markets; it could still exercise a redistributive role, although not necessarily entirely on its own. Instead of coercion, this group of thinkers prefers to rely on voluntary communities and civil society organizations to solve ‘social justice’ problems.

2.3 Political impasse

In what sense can one say that political ideas succeed? This depends, of course, by what one regards as politically rel-
evant. In a narrow sense, politics is the domain of electoral politics and public policy-making; in a broader sense, a wide range of institutions in the public sphere (for example courts, international organizations, and publicly owned utilities) as well as legal norms and cultural values about power relations form the background against which political decisions are enacted. Third way approaches of the sort I outlined above have failed to make a major impact at the governmental level. There are, of course, exceptions, such as the British Labour Party under Tony Blair or, arguably, the Clinton administration. Or going back further, the New Deal was very favourable to cooperatives in the United States, while Georgism was an important tendency within the Labour Party in pre-World War I Britain. But these exceptions themselves underline the fragility of third way options: they tend to be rather ephemeral insofar as their implementation is closely tied to the political fate of a more or less exceptional, charismatic leader. No lasting support in the form of political parties or other institutionalized means of mass mobilization has ever been linked to their causes.

There are two primary reasons why left-libertarianism has never permanently influenced public policy. First, the inevitably complex and even paradoxical doctrines that emerge out of efforts to mesh divergent ideas drawn from many sources are difficult to summarize in simple terms.\textsuperscript{16} The apparent exception, of course, is George’s slogan of the “single tax,” but the justification proposed by George for this tax is more nuanced and complex than, say, the Marxist call for a revolutionary upheaval to put an end to “exploitation.” Second, theorists who have historically put forward third way doctrines have typically been original minds pursuing idiosyncratic goals. What ends up being selected from the different currents within liberalism, socialism, populism, and ambient cultural or political trends is always unique to the individual third-way theorist. Even contemporary left-libertarians, such as Peter Vallentyne, Hillel Steiner, Michael Otsuka or Philippe Van Parijs disagree on many questions, so that beyond very rough contours, it is not easy to specify what a left-libertarian political platform would look like. As for market socialists, they seem to range across an even wider spectrum.

2.3.1 Paradoxical insights
Left-libertarian and market socialist outlooks present many paradoxical aspects. For example, libertarianism, at least in North America, has become associated with certain policies that the media will often describe as being “conservative,” largely as a result of the tactical alliance of many libertarians (for example Ron Paul) with a Republican party dominated by socially conservative elements. Thus to hear that there is a libertarianism situated on the “left” of the political spectrum appears peculiar to the typical voter. Diverging from what these voters ‘know’ to be true, they likely reject left-libertarianism because it appears illogical. Indeed, I suspect that this sort of reaction is not uncommon and account for some of the difficulties that left-libertarians have encountered in the political arena. Similarly, socialism has a long history of arguing against economic freedom and extolling the virtues of enlightened planning. In recent decades, social democratic parties, especially in Scandinavia, have made their peace with the market, but even the leaders of these parties do not wax quite as enthusiastically about the benefits of markets as David Miller or Ted Burczak do. That a socialist could find much positive to say about Hayek is indeed paradoxical.

And yet, paradoxes are not reducible to contradictions.\textsuperscript{17} In fact paradoxes have played a decisive role in the history of philosophy. Roy Cook (2013, 2) thinks that those who argue that intellectual inquiry is nothing but a reflection on paradoxes may not be far from the truth. Thus to say that emergent third way theories, from George to Vallentyne, or Proudhon to Burczak, are paradoxical in some significant respects does not necessarily mean that the theories are wrong. All the same, the fact that the intellectual world appreciates paradoxes does not mean that most people are ready to be convinced of their subtle merits. Depth and complexity tend to work against a political ideology, let alone a political party attempting to win an election.

Neither liberalism (in all its many divergent currents) nor mainstream socialism is entirely free from paradoxes. However, it is possible to grasp the essential message of liberal or socialist thinkers without being perplexed from the very start. But third way thinkers have deliberately sought to mesh ideas that ordinarily one would think are incompatible. Calling for the abolition of property in land, as Walras did, or for some similar but arguably less radical scheme, as George did, while proclaiming the virtue of competitive markets and casting aspersions on socialists as they both did, is confusing. The contemporary left-libertarian feat of juggling self-ownership on the one hand, and rights in natural resources on the other, is also deeply paradoxical: the only way to uphold the latter is to infringe on the former. I have argued above that a reasonable compromise between these polar opposites can be reached.\textsuperscript{14} Whether or not it can be resolved analytically, the mere appearance of a paradox in
the realm of practical politics can be enough to discourage voters from engaging with a party or movement manifesto. It is commonly thought that socialism involves a high degree of planning and regulatory interventions, so the idea that socialism is compatible with economic freedom is not an obvious one. Market socialists face another obstacle with respect to their attitude concerning property rights. We can go back to Proudhon’s famous declaration (in his *What is Property?*) that “property is theft,” and contrast it with his later assertion in his *Theory of Property* that “property is the only power that can act as a counterweight to the State.” As it turned out, however, Proudhon was an ardent defender of property rights; what he objected to was its unequal distribution. He pleaded for a bottom-up reform of society that would result in workers and craftsmen pooling together their resources to become more efficient, while keeping some degree of control or “possession” over their capital. He was resolutely opposed to state ownership. Similar complexities, if not outright paradoxes, are not hard to find in the writings of contemporary market socialists.

If the combination of free markets and the public ownership of land (or even of all natural resources in the case of left libertarians) renders George’s work paradoxical, a fortiori the same is true of market socialism. Incidentally, this point brings to light another source of confusion. Some market socialists (for example Roemer) argue that although firms ought to be managed democratically if possible, it is imperative that they be publicly owned. The reason is that this makes it possible to equalize profits across society as a whole. Socialism is after all an essentially egalitarian ideology, so it is unsurprising that this is precisely the value that some proponents of market socialism want to mesh with the advantages of a market economy. Other proposals, however, (for example Miller [1989]; Burczack [2006]) recommend an economic system in which worker-owned-and-managed cooperatives play a central role.

Fleurbaey (1993) introduces yet another variant in which property rights are refashioned in such a way that workers obtain all the profits their firms make but are not allowed to invest in them; in other words their ownership shares stay the same—investment therefore takes the form of loans from banks. Although this also constitutes an egalitarian model, the value to be equalized in this second instance would be socioeconomic power rather than wealth. Agents would gain a greater say in the affairs of their firms and would be in a position to challenge or resist the power of state bureaucrats. Disparities in income would presumably be rather high, although large disparities in wealth could be prevented by taxing inheritance near a rate of 100%. This is not an insignificant divergence, however. If political success depends on mass mobilization around a simple—or, at least, simple-sounding—idea, then market socialists have a problem.

Whether market socialism is compatible with planning, which remains associated in the minds of most people with mainstream socialism, is a complicated matter. Some defenders of market socialism (for example Roemer) are not willing to grant that coordination through market mechanisms is always the most efficient method of managing an economy. They point to the possibility of bias (such as short-term horizons) and the perverse influence of externalities. But what sort of planning is compatible with respect for economic freedom? Roemer (1993) cites the by now quite outdated example of French indicative planning, which has long been abandoned because it cannot work in a globalized world. However, the paradox is that some sort of planning might be more necessary in a system where workers are free to manage their own firms because, as the experience of Yugoslavia shows, they are likely to be more risk-averse and more short-term-oriented than capitalists.

One ingenious way to encourage risk-taking and innovation is Roemer’s (1994; see also Burczak, 2006, 124–7) suggestion to establish a coupon stock market, which would create incentives for better management without substituting the power of investors for that of the worker-managers. Starting with an equal distribution of coupons, stocks would be purchased with, or exchanged for, coupons that could not be traded for cash by individuals but could be cashed in by the firms issuing shares, with share owners receiving a fraction of the profits of the firms.

The spectacular economic take-off of China represents another paradox. Does China qualify as an example of market socialism? It meets neither the definition of socialism favoured by old-guard Marxists nor does it have much to do with the sort of democratic participatory socialism that western advocates of market socialism favor. Against a background of significant increases in the general welfare, extraordinary economic inequalities have arisen under China’s economic system. Nevertheless, the Communist Party remains in power and is, at least rhetorically, still committed to socialist development, while public ownership continues to be the norm in key sectors of the economy. But that would suggest that market socialism is not inherently democratic and that it can still be very illiberal. China’s social and political future is uncertain and it might find its own way toward a more democratic political life. For the proponents of a path...
to market socialism that respects and enhances the liberties of all individuals, the Chinese case is just one more source of confusion.

2.3.2 Idiosyncratic creations
As I have explained so far, third way approaches combine disparate ideas to create complex schemes. There is no canonical way of arranging or synthesizing conflicting themes and, as a result, the particular formulations proposed by leading left-libertarians or market socialists sometimes appear to be rather idiosyncratic. It would be tedious to go over each and every nuance or inflexion that a particular thinker has given to the theories discussed above. But I want to single out a few illustrations of the diversity of views one can find in each camp, and even of a tendency to sometimes go off on questionable tangents.

As John Pullen (2001, 547) explains, George stated that the taxation of land rent would amount to the abolition of the institution of private ownership of land, thereby alienating those who, whether for economic or ideological reasons, regard private ownership of land as essential for social order and progress. George believed that under his proposed reform the private ownership of land would be replaced by private possession. But this distinction between ownership and possession appears to have been based on a misconception of the nature of private ownership. His proposed reform could have been more logically described as a conditional, modified, or restricted private ownership of land, rather than as the abolition of ownership.

At a certain level of abstraction, the “possession” that he maintained the occupants of the land would continue to enjoy is not different in kind from the concept of property even if, in practice, certain restrictions would apply. In the real world, property rights are always defined by law and some conditions are always imposed, such as fiscal obligations. This does not necessarily mean that ownership has changed hands. George himself seems to have conceded as much:

I do not propose to either purchase or confiscate private property in land. The first would be unjust; the second needless. Let the individuals who now hold it retain, if they want to, possession of what they are pleased to call their land. Let them continue to call it their land. Let them buy and sell, and bequeath and devise it. We may safely leave them the shell, if we have the kernel. It is not necessary to confiscate land; it is only necessary to confiscate rent (George, 1879/1929, 405, cited in Pullen, 2001, 548)

Walras, by contrast, did explicitly state that land should be nationalized, a genuine socialist policy. However, the gradualist approach and precautions he recommended could well mean, if they were to be enacted, that the socialist end result would never be reached. Social reform is not like running a railroad. The longer it takes to implement a plan, the more likely it is that it will be modified at some crucial juncture. Governments come and go and they are not bound by their predecessors’ decisions. Walras (1907/1987, 496) envisions a three-step process: a) “the state, without changing anything fundamental about the land tax, gives it the form of a co-ownership of land”; b) “then, provided with its share, the state purchases back from the land owners their part and pays them by means of bonds on its debt”; finally, c) “the state acts as a lessor for the land it owns by then in relation to rent consumers or entrepreneurs.”

Walras noted that at the beginning of this process, which could take decades, the interest on the debt would exceed revenues from rents but eventually rents would exceed the value of the bonds. Leaving aside the fact that the nationalization of land required to implement the plan, in this admittedly fair but protracted manner, might never be complete,19 he hoped that the gradual disappearance of inequalities would facilitate the creation of cooperatives. However, he was only advocating the co-ownership of firms by their workers who would all become, in a sense, capitalists. At the same time, he was uninterested in the democratization of the workplace and the move toward a more democratic economic system in general; by contrast, economic democracy is a central plank in the programs of most contemporary market socialists (for example Schweickart, 2011; Burczak, 2006).

Among contemporary left-libertarians, Steiner appears rather isolated in his defence of the idea that genetic inheritance should be included in the definition of “natural resources” for the purpose of interpreting the implications of the Lockean proviso. From this debatable but not absurd hypothesis, Steiner goes as far as to derive the highly contestable conclusions that:

“under the general rule for rights to natural resources, we should tax parents on the value of their children’s genetic endowments. Or more precisely, we should tax them on the value of the germ line information they appropriate in conceiving an offspring. And this tax, like all taxes on people holding rights to other natural resources, goes into the global fund, on which everyone has an equal claim. (Steiner, 2009, 7)
I say contestable because not only does this sound empirically infeasible, it is almost certain to revive obnoxious debates about genetic differences about intellectual abilities among “races,” not to mention that it would drag us back to eugenics and all its attendant irrational and malevolent prejudices. Such a prospect should be abhorrent to any one proclaiming his or her attachment to human rights and liberalism. Of course, this is not Steiner’s intention; this puzzling passage appears to be meant as a vaguely ironic response to Rawls’ argument that all differences in an individual’s life chances are due to circumstances. Not that the problem raised by Steiner is insignificant from a scientific or philosophical point of view, but it should never be allowed to become a matter of practical import for policy-makers for the reasons I just gave.

If there is to be a “global fund” from which compensation can be paid, it is highly doubtful that simply taxing criminal act, as proposed by Otsuka’s (2003), would be sufficient to satisfy his version of the Lockean proviso: “You may acquire previously unowned worldly resources if and only if you leave enough so that everyone else can acquire an equally advantageous share of unowned worldly resources” (Otsuka, 2003,24). Although Otsuka limits the scope of redistribution by putting greater emphasis on individual choice and responsibility, Otsuka’ s proposal would still likely result in much greater redistribution than currently experienced in the West. Admittedly, Otsuka’s opposition to more extreme forms of taxation should be read in conjunction with his strong emphasis on the importance that voluntary giving could play in redistributing resources. Yet, Otsuka’s opposition to taxation and demand for greater redistribution make is schema questionable as a matter of practical feasibility.

For a final example of left-libertarians idiosyncrasies, I now turn to Philippe Van Parij’s (1995, 106-30) claim that merely holding a job in an economic system where jobs are scarce counts as rent-seeking. We may be moving toward a future where robots will become so ubiquitous that, in effect, jobs will become a rarity that could indeed be counted as sources of rents. But we are not there yet.20

3: TOWARD A FOURTH WAY?

The political barrier that stands in the way of libertarian projects—be they strictly libertarian or tinged with progressive concerns—stems from a modernist bias, namely, the questionable belief that politics and the state are inseparable.21 Classical liberals in the past, and their libertarian heirs today, have sought to limit or reduce the scope of state interventions in the economy and social life, but their modernist outlook condemns them to seeking political power so as to, paradoxically, do away with political power. They see no other way of trimming the state than doing it in a top-down fashion by using the bureaucratic and legislative instruments at the disposal of the state itself. Strict libertarians would be tempted to reduce the state maximally, while left-libertarians would still wish to retain some state capacity for minimizing the effects of rent-seeking (primarily from natural resources) and some limited redistributive function. But in either case, these aims would have to be adopted by a political party seeking power. For the reasons suggested above, and because most voters are reluctant to experiment with radical reforms, libertarianism stands little chance of being implemented democratically. But is there no alternative to this doomed program of institutional restructuring? I wish to suggest that there could be a fourth way opening up at a completely different level. In fact, to some extent it is already being explored by a vibrant and growing “voluntary sector.” Moreover, new directions in economic theorizing and research provide needed intellectual support for this shift.

Even if they wish to stay clear of the most extreme forms of postmodern relativism, libertarian reformers would be well advised to pay closer attention to the postmodern critique of structures.22 Postmodernism and post-structuralism are practically synonymous. Post-structuralism was an attack on the centrality of structural explanations in philosophy and the social sciences; postmodernists have extended that critique to the institutions that embody the modern “grand narratives” such as, in particular, state bureaucracies. But Michel Foucault has gone beyond this particular critique to articulate a very perceptive exploration of politics at all levels of the human experience. Feminism, as is well known, has also uncovered the political dimensions of everyday life. Unfortunately, such pioneering and original insights have been marred by illiberal biases derived from the Heideggerian rejection of the supposedly metaphysical “subject.” The heroic figure “resisting” the misuses of power wherever he or she encounters them is paradoxically content to see himself or herself as a cultural artifact! But there is no reason to fall into this trap.

To govern literally means embarking on a course and steering toward a destination. As Ruth Lane (2007) suggests, there is no reason why in liberal regimes individuals should entrust the state with the unique and exclusive responsibility of steering society toward goals that they could reach...
themselves. Even if some goods (“public goods”) are more efficiently produced by the state, there is much that individuals expect from the modern state that they could do on their own locally or by using opportunities available in markets, such as boycotting unhealthy products or putting pressure on companies to change their production methods. With a delightful touch of irony, Lane (2007) refers to this new layer of political engagement as “individual self-government.” She points out that the “problems of society in modern liberal democracies are not state problems and the state cannot be asked to solve them” (Lane, 2003, 7). But she traces her model of micro-politics back to Henry Thoreau (Lane, 2003, Chapter 3).

Lane’s references show that it is possible to reclaim micro-politics from the grip of postmodern quasi-collectivist dogmas, something that classical liberals and (right- as well as left-wing) libertarians will find appealing. Going back to Thoreau is an astute move because it allows Lane to make extensive use of Foucault’s brilliant insights without falling into the illiberal trap of hard-core postmodernism, with its emphasis on the disappearance of the subject in a maze of relativistic half-truths. Reinventing politics at the level of personal affirmation is a challenge to which (more or less) libertarian—in any event non-illiberal—third way thinkers ought to be open, because it would allow them to escape the conventions of state-centric politics (and by that I also mean the libertarian obsessive anti-statist rhetoric).

The point is no longer to prove either that the state ought to become more just or to deny that the state could ever be just. It is rather to think about what a politics concerned with “the pursuit of happiness” would look like, by whatever means free individuals choose that not only do not infringe on others rights, but also have an other-regarding element that stops actions that prevent others from acting freely. In this scenario the state can be treated as an irrelevant actor. Micro-politics also opens interesting but still insufficiently explored perspectives for students of emergence and complexity theory as analytical instruments that are entirely compatible with her project. What this project is, I can only sketch in broad strokes here, all the more so because I do not want to imply that it is only way of conceptualizing micro-politics. Lane (2007, 11) defines “individual self-government” as:

[t]he construction of a personal value and goal structure answering the specific needs, resources, and desires of the individual person; the defense of these goals against invaders; the basing of social relations on a respect for the self-government of those with whom one disagrees; and … on an affection for those with whom one agrees. (Lane, 2007, 11)

The extended political sphere within which individual self-government takes shape concerns the problem of justice or, as Lane puts it, the various games in which actors find themselves immersed while seeking to bring about their own understanding of what is just and fair. (I would add, although this is not inconsistent with Lane’s very realistic view of micro-politics, that playing the game entails strategic considerations that may be more or less self-interested and can produce sub-optimal results such as rent-seeking.) For Lane, there is a sort of virtuous circle linking the external constraints of the game of justice and the internal construction of the political self: “playing the game well requires ordinary folks to become self-governing individuals who are able to find in themselves their own definition of justice, and to live by those definitions as responsible participants in a personal and political world” (Lane, 2007, 12); inversely, “government’ entails the ability to know one’s deepest principles, the courage to maintain them in good times and in bad, and the skill to carry them proudly into practical games” (Lane, 2007, 13).

For left–libertarians, market socialists, and all those for whom markets are the best (albeit perhaps not always the only) instrument for enabling people to achieve their desired ends micro-politics offers more promising possibilities than conventional, state-centric politics. At the theoretical level, there is much that can be done—through research and teaching—to disseminate ideas such as the epistemological advantage of markets, coupled with the moral obligations to eliminate rent-seeking and/or to compensate those who did not or cannot benefit from the rents more privileged individuals enjoy. In other words, theorists can hope that a growing number of concerned and responsible persons, families, and groups will internalize their values and goals. Traditional political institutions such as parties can be bypassed in that way.

In practical terms, activists committed to left-libertarian or market socialist causes can be active in setting up cooperatives and/or trusts for managing common pool resources (cf. diZerega 2002) and/or in taking responsibility for the “lucky breaks” their social environment gave them, for example by contributing generously to philanthropic organizations or by giving their time to local community efforts to address the problems of sustainability. Admittedly, there are
limits to what can be accomplished through these types of actions. At some point, as feminists and environmentalists have found, “consciousness-raising” and localized initiatives must give way to more concrete policy changes at the national or international levels. But the point is that these movements (and to some extent right-wing libertarians as well) have succeeded in this way. The challenge for the advocates of non-illiberal third way approaches is to accomplish something similar. My point is that Lane’s insightful analysis of micro-politics and of the games they involve opens up a path that could eventually bring about desirable alternatives to the welfare state, without harming the disadvantaged.

How and to what extent does this Fourth Way approach help us to overcome the obstacles I previously described? Obviously, if the terrain has shifted so that electoral considerations no longer loom large, it becomes more feasible to work toward the fulfillment of aspirations that may otherwise be regarded as hopelessly utopian. Moreover, if (as I suggested above) left-libertarian theories are fraught with paradoxes and if their proponents have sometimes defended their positions in somewhat idiosyncratic terms, then individuals attempting to make sense of them in their own lives will work out their own interpretations and bring to bear their own insights—what is paradoxical to some may sound more plausible to others faced with different circumstances. Conversations among like-minded people may be prompted and enlivened by these multiple interpretations in ways that debates at the level of national politics could not accommodate.

Not only does micro-politics open up avenues that could be favourably explored by libertarians of all stripes, but it could also make it possible to push the boundaries of some cherished ideals. In particular, as far as left-libertarianism is concerned, the politics of everyday life could generate new insights on self-ownership and equal access to resources.

While individuals understandably expect legal definitions of their rights to be unambiguous and strictly enforced to avoid arbitrariness, in their everyday life they can afford to experiment with a much wider range of interpretations of “self-ownership.” Some people will choose to act on the basis of a rather narrow and literal definition of their “selves”; others, however, may choose to include in the sphere of their “self-interest” the interests of those for whom they care. Care-givers, parents, cosmopolitans, deep ecologists (the list can be extended in several other directions) would most probably do so spontaneously. Ownership can similarly be tweaked at the individual level in ways that would not be admissible from a strictly legal or administrative standpoint. In

the context of the politics of everyday life, the priority assigned to liberty can be enacted in ways that can be negotiated creatively with one’s peers, colleagues, and neighbours.

The question of equal access to natural resources and redistribution of rents is similar; different people will enter into reciprocal agreements about how to make up for one’s “ecological footprint.” To give just one example, concerned individuals may want—or may be persuaded by their friends—to donate generously to the Nature Conservancy or similar organizations. Redistributing rents or their equivalents can be done in a variety of ways: donating time or money; building networks; creating software that is freely accessible. Admittedly, the scope of such initiative may not at first be sufficient to make a significant impact, but as more people are persuaded to adopt left-libertarian ideals, they could reach a threshold beyond which the bandwagon effect will result in accelerating social change (something of this nature happened with the “blue box” recycling system). Recent behavioural economics research (Camerer, 2003; Cartwright, 2011) as well as some interesting theoretical advances on the subject of altruism in an economic context (Kolm and Ythier, 2006) strongly suggest that the time has come to abandon the image of homo economicus and to replace it with that of homo reciprocans (Bowles and Gintis, 2002).

Most people are not narrowly self-interested, nor are they pure altruists; but they will respond positively to offers of cooperation that they consider fair (Fehr and Gächter, 2000). It then should be the task of socially motivated entrepreneurs to build on these predispositions. In fact, on a relatively small scale, market socialism is already being practiced in the context of the many cooperatives that can be found in Europe (notably the Mondragon cooperatives in Spain) and North America. A few caveats are in order, however. For the micro-politics of the future to be moving in a libertarian or left-libertarian direction, libertarian theorists of all stripes would have to pay much more attention to it. In other words, they would have to spend less time denouncing government failures and more time on articulating a positive discourse about what can be done in a variety of other contexts, and those ought not to be reduced to markets only. Richard Cornuelle (1965, 1983, 1991) did pioneering work in that regard, but much remains to be done. I must also concede that the voluntary sector cannot bear the burden of the transition I am advocating on its own. Changes at the micro-level sometimes need to be accompanied and eased by policies enacted at the macro-level. The implementation of a Basic Income Guarantee...
(BIG) or some variant of the principle would create conditions favourable to a greater degree of individual responsibility and engagement with community concerns.

It could also be argued that I am rediscovering the wheel. Did not Tocqueville a long time ago extol civic virtue and local democracy? Is there not already an immense literature on the historical, political, and philosophical significance of the notion of “civil society”? Do we not already know that “social capital” is crucial in a complex society, even though it can be eroded by excessive reliance on the services provided by the modern welfare state? There is some validity to such objections, and I am the first one to admit that much of the recent literature on social capital and the need to rediscover the virtues inherent in the concept of civil society is very helpful and illuminating. I would add, however, that i) a recognizably libertarian voice is still hard to distinguish in this chorus;\(^ 27\) and ii) Lane’s concept of “political society” is distinct from the more conventional understanding of “civil society,” insofar as it pays more attention to the conflicts individuals are engaged in and the strategic moves that they have to make (“political society” is constituted by all the “games” that we are involved in, some of which can be very costly\(^ 28\)). Moreover, justice—a fundamental concern for left-libertarians—is more explicitly central to Lane’s political society than to the more amorphous concept of civil society. But justice also implies the existence of injustice. Since even in a free society politics is omnipresent, individuals have to remain vigilant about their ever-changing prospects.

Micro-politics is spontaneous but it is not much of an “order.” For that reason, it is better thought of as a complement rather than as a substitute for state institutions, because the existence of a legal framework remains indispensable to prevent the descent into a Hobbesian nightmare. Only an (almost) minimal state is required for that purpose but, once again, as long as the state continues to exist as a massive, costly and inefficient behemoth, the best strategy is not to confront it directly by trying to dismantle the welfare state, but rather to bypass it and build concrete alternatives at the local level.

4: CONCLUSION

Libertarians have made few strides toward the fulfilment of their goals, even if in recent decades they have succeeded in slowing down the march of the interventionist state. In democratic regimes, there exist formidable obstacles in their path. The rhetoric of strict libertarians pays too little attention to matters that are very important to many ordinary voters and which libertarians often derisively paint as the “mirage of social justice.” While complete social justice may indeed well be a mirage, it is inspired by practical concerns that libertarians ignore at their peril. Left-Libertarians (and market socialists) must be given credit for confronting these issues, but in the realm of electoral politics their chances are not much stronger for reasons I have outlined at some length above.

The solution I have proposed consists in moving to another level of engagement, namely, micro-politics, that is, the politics of everyday life. In so doing, left-libertarians would create opportunities for deepening their appreciation of the complexities of the “self.” They could also discover new ways of building upon the enlightened self-interest that motivates most people to be reasonably other-directed in order to deploy alternative, locally-based ways of addressing the question of how to compensate people for instances of unfair allocation of natural (and possibly socio-cultural) resources.

NOTES

1 This is not to say, however, that all libertarians or libertarian sympathizers are enthusiastic about the concept of spontaneous order; for critiques of that concept, see for example Clovatre (1986), Antonio (1986) or Sandefur (2009).

2 I use this term loosely to include classical liberals and other fellow travellers for simplicity’s sake (even strict libertarians are far from being a completely homogeneous group) because “liberals” could invite confusion with American egalitarian liberals.

3 Left-libertarians also support the idea of a basic income; see Parijs (2006).

4 The French “malaise” which has been worsening over the course the last decade is another typical example.

5 See also Vallentyne and Steiner (2001).

6 As George (1879/1929, 168) aptly put it: “the rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use.”

7 Of course, this is not literally true in all cases: erosion, pollution (e.g., contamination by radioactive fallouts) can make land unusable and thus worthless. But as a rule, any economic activity that needs a physical location requires land which, consequently, always retains a potential value. This is not the case with, say, an outdated computer.
8 In more technical terms, this has to do with the elasticity of marginal utility close to the point of equilibrium for a given commodity; according to Maks, its value should be greater than -1 for the process to be stable.

9 As Robert Nozick (1974, 174) facetiously asks, if someone builds a fence around a piece of land, does this person's labour entitle him or her to the land beneath it or to the entire lot?

10 This somewhat exaggerated statement applies more to contemporary (right-wing) libertarianism than classical liberals in Fouillée's lifetime; but he was correct in adding that liberals wish to prevent the state from acquiring more than it has.

11 Such limits would probably lead to a reduction in the level of current income tax in most countries because it is unreasonable to assume that rents derived from social assets account for more than a small fraction of higher incomes; individual choices count for much more. For example, even if access to quality education gives someone an unfair (and therefore taxable) advantage in a society where some public schools are much better than others, and/or where student fees can be a deterrent to some, what one chooses to do with one's degree varies enormously from one individual to the next. A corporate lawyer makes much more money than a lawyer working for a non-profit, but that is a matter of choice that has nothing to do with Fouillée's unequal access to "social property."

12 This famous exchange of ideas is well summarized in Wolhgemuth (1997).

13 It is unfortunate, in that respect, that some of the best known Austrian economists, from Eugen von Böhm-Bawerk to Murray Rothbard (1997), have been so critical of George; but that is because they were only looking at his theory of rent and interest. Some authors close to Austrian economics or public choice (e.g., T. Borcherding et al. [1998]) offer a more favourable assessment.

14 By not capitalizing these words, it is possible that he meant not only the abrogation of the literal terms of the French Declaration but possibly the abrogation of any such declaration for which the French Declaration is only an exemplar.

15 This shift was in no way limited to Britain or the U.S.

16 Some third way thinkers regard complexity as a virtue; Marc Fleurbaey (1993, 266) explains that a "major idea that inspires [his] model is that complexity can and should prevail, as far as property rights and coordination devices are concerned.”

17 The so-called Fitch paradox, for example, which claims that if all truths are knowable, then all truth are known is not an obvious contradiction even though it clearly is not true that all truths are known (Cook, 2013, 10).

18 For a recent assessment of the Chinese model of market socialism, see Zheng and Scase (2013).

19 One of the reasons why the process might be derailed before it reaches its destination is that in the absence of an unfettered market for land, and, therefore, of reliable signals about desirable and less desirable locations, there would be what Murray Rothbard (1997, p. 299) called "locational chaos.”

20 Admittedly, Van Parijs's argument has some validity for the younger generations in countries experiencing extremely high youth unemployment, such as Greece or Spain at the moment.

21 For a critique of this confusion, see diZerega (2000).

22 Libertarians have not been indifferent to postmodern ideas. Although in an attempt to refute them, Jeffrey Friedman has very perceptively underlined the extent to which libertarians have walked along paths that often parallel those explored by postmodern philosophers, sometimes more or less inadvertently, as in the case of Hayek's evolutionism, but often quite deliberately; Friedman (1991) points to numerous articles that have appeared in the pages of the journal Critical Review whose authors see in the notion of spontaneous order and the Hayekian critique of constructivism an invitation to reject positivism and to recast libertarianism as a discourse on complexity and uncertainty in political economy. I do not agree with him that this has been in vain, but I concede that much remains to be done to articulate a coherent reformulation of classical liberalism that would be in tune with 21st century concerns and sensibilities.

23 This is by definition the opposite of utopianism. Perfect justice either through the design of just institutions, as proposed by Rawlsian liberal egalitarians, or the eventual collapse of the coercive state, as libertarians feign to believe is feasible, will for ever elude us. But bypassing at least some of the institutional obstacles that stand in the path of these dreams is not an impossible feat. It can hasten the emergence of new ways of thinking and acting—something that is actually already happening as the modern welfare state is becoming more and more unsustainable and ineffective.
24 The parallel with Fouillée's notion of idées fortes (self-realizing ideas) is striking. Fouillée's (1907; Foston, 1908; Dobuzinskis, 2010) ethical theory follows a series of steps that start with the observation that on the basis of their own experience, individuals form in their minds certain notions of what is fair and good; through their engagement in webs of social relations, they come to a mutual realization that others share similar intuitions; as this realization spreads through the social fabric, debates unfold that result in social conventions.

25 For all its flaws, the welfare state has proved remarkably resilient, largely because no credible alternative way to promote equality of opportunity has been worked out; Hayek's doomsday scenario about the inevitability of social democracy leading to full-blown collectivism has not come to pass (see Alves and Meadowcroft, 2013).

26 The potential for self-government outside of the developed world is a big topic, but from a standpoint that is not very different from mine, David Ellerman (2006) has argued that development assistance agencies hinder the effort of people to help themselves, and that the priority should be to develop strategies for helping people to become more self-sustaining and proficient on their own.

27 A notable exception is provided by G. B. Madison's (1998) analysis of the extent to which human rights depend on the existence of a richly diverse civil society in which the moral, political and economic orders are so arranged that they provide individuals with the means to be autonomous while also making it possible for them to interact as they choose.

28 In that respect, Lane's (2007) vision is less Pollyannaish than Madison's (1998).

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Paradoxes of Freedom: Civil Society, the Market, and Capitalism

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Abstract: Civil society maximizes individual freedom. Spontaneous orders emerge from principles expressed more completely within civil society and enable cooperation to take more complex forms than in their absence. However to the degree spontaneous orders incorporate activities from civil society, subjecting them to coordination by simpler feedback based on narrower values, they diminish that same freedom. Public corporations and alternative organizations are used to illustrate this argument.

Keywords: Civil society, spontaneous order, corporations, freedom, capitalism

INTRODUCTION

This paper argues civil society is the real location of individuals’ freedom and neither markets nor other spontaneous orders can be equated with or entirely included within civil society. Spontaneous orders emerge from the same basic principles expressed more completely within civil society, but as these more specialized orders develop they can come to stand in an increasingly paradoxical role with regard to both individual freedom and civil society. To the considerable degree spontaneous orders expand human efficacy into new dimensions of life they can expand the realm of individual freedom. Spontaneous orders facilitate more complex forms of cooperation. However, to the degree spontaneous orders incorporate activities from civil society, subjecting them to coordination by their simpler feedback based on narrower values, they can diminish that same freedom. As a result, free societies generate and are enriched by spontaneous orders but can also be threatened by them.

This argument challenges important assumptions by many who, with me, value Hayek’s concept of spontaneous order. To make my argument I try to be very clear in my terminology, a terminology that to some degree incorporates concepts still not commonly understood. I hope my readers will pay close attention to these concepts as I define them.

Key Terms

Civil society
Civil society is the sphere of consensual relations between non-intimates enjoying equal legal status and freedom to enter into cooperative enterprises that do not injure others’ equal legal status and freedom. All are independent equals (Hardwick, 2008).

In civil society, each individual freely balances many ethical concerns along with other desires and incentives in choosing what to do. The civil institutions within which people act generate many different kinds of feedback, each biased in favor of different values. Different signals reflect many different values able to be pursued through voluntary action. No single feedback signal dominates. It is this combination of multiple overlapping and sometimes conflicting feedback signals combined with freedom of choice that creates a sphere of liberty within a rich matrix of values and opportunities for creativity.
People debate whether the family is part of civil society. As I employ the term the answer depends on the questions being explored, for families can exist in cultures lacking most features of civil society (Banfield, 1967; Fukuyama, 2011). In this paper the family as such is largely irrelevant to my analysis, except when considered as a voluntary association united around common values.

In terms of the vocabulary of emergence, civil society is a complex adaptive transformative system, but it is not a spontaneous order. Formally voluntary agreement is a value common to both civil society and spontaneous orders, but in the latter action is coordinated and constrained by a single kind of feedback. Civil society, by contrast, emerges among people enjoying equal status and freedom of association. There is no feedback signal analogous to the price system in the market.

Spontaneous order
A spontaneous order is the complex dynamic pattern of mutually adaptive relationships emerging from status-equals following abstract procedural rules, while pursuing independently conceived and sometimes contradictory projects. The rules generating a spontaneous order are more narrowly focused than those generating civil society, because they seek to facilitate cooperation within specific value domains such as economic exchange, scientific discovery, or deciding common public values. For example, the spontaneous order of the market requires enforceable rules of contract, alienable property rights, and laws of tort in addition to equal status and freedom of association.

The collective impact of actions within these more specialized contexts generates systemically specific feedback signals serving to guide people within it across the order as a whole, increasing their ability to make effective use of information they do not themselves possess while pursuing their plans. In the market this feedback is in terms of prices, in science it is community recognition, and in democracy it is votes.

Instrumental organization or taxis
An instrumental organization or taxis is the organized pursuit of a goal or hierarchy of goals such that we can regard its pursuit as successful or not, and judge the use of resources towards attaining that goal as efficient or not. In a spontaneous order—at every level of involvement—contradictory goals can be pursued, whereas in an instrumental organization all such pursuits are ultimately judged by their contribution to the organization's hierarchy of goals. As a consequence, efficiency is a concept central to understanding instrumental organizations, whereas it is impossible to employ the term clearly with respect to a spontaneous order. In this sense a business, political party, or research team may be efficient but the market, democracy, or science is neither efficient nor inefficient.

Systemic feedback
Systemic feedback in a spontaneous order always depicts the collective impact of many independently conceived plans and motives via a simplified signal, abstracting away from the concrete distinctions shaping any particular interaction. Consequently, systemic feedback does not reliably illuminate the motives of individuals acting within these systems or their values in different contexts. We need not be motivated by the values provided by systemic feedback to be able to interpret it and make use of it. For example, prices in the market give us guidance in more effectively pursuing our individual goals, but why we are willing to pay or charge one price and not another cannot be inferred from the fact that we are so willing. Prices translate complex information into terms understandable by all, but do so by abstracting away all individual information.

Votes in a democracy do the same. No vote explains why an individual voter made his or her choice. I can vote against or support a candidate for policy reasons, because of my views about their personal life, whether they are people I would “like to have a beer with,” or for many other reasons. An electoral win does not necessarily translate into an endorsement of the victor’s particular policies. It only signifies that a given party amassed enough systemic resources (votes) to be in a position to make rules about public values for society until the next election.

An observer faces similar difficulties, if somewhat narrower, interpreting a vote for or against a specific ballot initiative. For example, both people opposing and supporting ending California’s laws against possessing and selling marijuana voted against an initiative that would have done just that. In the latter cases they did so because of other elements in the initiative. Some people who opposed the initiative did so because legalization threatened the high profits they made from selling an artificially scarce substance.

Reputation in science is the major means by which scientists can judge the likely worth of work by another scientist before they have become acquainted with it in detail. Because so much is produced there is not time to understand it all. Reputation has become a better means than any other for making an initial judgment as to the likely worth of
a scientist’s work. But reputation tells us nothing about the specific content.

**Systemic success and failure**

Distinguishing systemic success and failure from individual success and failure is essential for understanding this paper. **Systemic success** is having one’s plans succeed in terms of acquiring resources serving as positive feedback signals within a spontaneous order. In a market this results in making money; in democracy, in acquiring votes; and in science, in acquiring recognition for one’s contributions to the body of scientific knowledge. Systemic success can differ from an individual’s judgment as to his or her own success or failure. For example, people may regard themselves as failures in life despite their making money, acquiring scientific fame or winning elections.

**Systemic failure** is losing systemic resources through negative feedback. It differs from personal failure for the same reason systemic success differs from personal success. A person might regard themselves as successful in what matters most to them despite having very little in the way of such systemic resources, or even losing money, votes, or not receiving recognition for their scientific work.

By distinguishing systemic success and failure from individual judgments of personal success or failure we can differentiate between the motives, interests, and judgments individuals have when they act within a spontaneous order and its systemic shaping of their and others’ actions into invisible-hand phenomena manifesting in and through systemic feedback.

In *The Economy of the Earth*, Mark Sagoff (1988, 50-1) gives an example I have replicated for years using different examples tailored to my classes in environmental political theory. At one time, the Disney Corporation wanted to build a ski resort in an isolated Sierra Nevada valley, Mineral King. To do so they sought permission to build a highway that would cross through a part of Yosemite National Park. There was considerable statewide debate before Disney’s proposal failed.

During this period Sagoff asked his students in California how many would want to ski in Mineral King if it were built. Many indicated they would. He then asked how many believed it should be built. Next to none indicated it should. (There is no logical problem in arguing that an entrepreneurial project could be profitable in systemic market terms and yet not a single consumer would have wanted the thing to be built. The conclusion that a spontaneous order mirrors individual preferences *in any sense* must be argued for rather than simply assumed.)

Significantly, whereas systemic success and failure is an important characteristic of markets, democracies, and science, civil society has no equivalent concept. The reason is that civil society has no single system of feedback that can define a systemic resource. Now to develop my argument.

**CIVIL SOCIETY AS THE WOMB OF SPONTANEOUS ORDERS**

Civil society is the only sphere of social existence beyond the sphere of intimates where the full range of consensual human values and virtues can be acted upon without some being penalized systematically. Civil society is not a spontaneous order because no single kind of feedback coordinates discovery within the system as a whole. There is no single coordination problem because there is no standard by which more effective coordination can be judged. Different kinds of feedback always present each participant with a complex value environment where he or she must make decisions. In a more than symbolic sense, civil society is the realm where the most basic human values serve to produce social networks of unimaginable complexity.

Civil society is also the primary institutional expression of liberal values. People are equals in status and are free to come to any agreements they can devise over any topic that does not assault the equal status of others. We can form a business, a church, a club, a co-housing community, agree to an outing, share expenses, trade objects or labor, go to a party, or do anything else in the wonderful complexity that arises when people are free to cooperate on anything they can agree upon. Honesty, equality, peaceful interactions, and persuasion generate civil society manifesting in unimaginable complexity and variety.

While both civil societies and spontaneous orders are moral orders—rooted in cooperation among equal people—only civil society provides a morally rich context within which the full potential of peaceful individual development can blossom in all the ways human beings are capable of attaining. This is because within civil society human choice *always* trumps any given feedback signal. Within civil society I can meet friends to work out, go shopping and choose by comparing prices, work on a scientific paper, cast a vote for city council, and volunteer at a food bank, all in one day.

Spontaneous orders are ethically thinner orders. They can be to some considerable degree realms of freedom, but...
they do not constitute free societies. Spontaneous orders can exist to some extent in societies with only a minimal civil society, as many of the physical sciences did in Communist Russia and as markets do today in contemporary China. Science and the market require spheres of action being freed from authoritarian direction and to that degree constitute realms of freedom of choice. But no one would describe China as a free society simply because its government allows a wide range of economic entrepreneurship or Russia as a free society because large areas of science were integrated into the worldwide scientific order. Only when all or virtually all spheres of life are so freed does civil society arise; only then can we say that we have established a free society.

To make a thought experiment, let us start with civil society, which is essentially John Locke’s state of nature.1

Over time spontaneous orders arise and differentiate themselves as different kinds of cooperation begin to specialize into communities of participants. These participants agree on procedural rules for pursuing projects compatible with the values that these procedural rules privilege. The clearest historical example is the development and differentiation of science beginning in the Renaissance and then taking off during the Enlightenment. Market activity long preceded civil society as I have defined it, but the more closely society came to resemble civil society’s conditions, the more the market resembled a free market, because legal privileges and barriers were removed as impediments to economic exchanges. As it developed, the relatively free market specialized into a spontaneous order coordinated by information provided through the intermediary of prices set without political intervention.

As a spontaneous order develops, areas of coordinated discovery and cooperation expand into far more complex realms than could have been the case in civil society, an expansion made possible by their specialized feedback signals. For example, contracts can safely be entered into by people who have never met. Spontaneous orders enable civil society to attain a breadth and complexity it otherwise could not.

By the same token, as a spontaneous order’s systemic feedback grows in importance, the rich panoply of feedback characterizing civil society becomes increasingly attenuated. As science and the market begin to differentiate themselves, this richness of feedback becomes simplified into a single signal for those acting in organizations within them.

As science specialized, the number of professional scientists increased. Scientists increasingly became subjected to the standards of the scientific community for their livelihood. The work of devoted amateurs will probably always remain important, but it has diminished as a percentage of the whole. The scale of research made possible by specialization expanded. But as this happened, individual scientists became far more dependent on the judgments of their peers for their livelihood. Science became less an individual’s exploration of reality in whatever way it interested him or her, instead developing into a disciplined focus on research issues that took for granted the adequacy of standards of scientific feedback as they had emerged from the Enlightenment. Science increasingly demands of those who practice it that they accept and work within its matrix of core values.

But science is a special kind of spontaneous order in that the value its procedural rules seek to serve is scientific truth. This vision of truth is distinct from individual hopes, dreams, wants, and fears. We do not know what ultimate scientific truth will be, if there is such a thing, but in their work scientists subordinate themselves to the standards that evolved to winnow out errors from contending explanations. Freedom in science is freedom to do research subject to scientific standards. Outside their work as scientists, however, scientists as members of civil society employ different standards for their conduct as friends, spouses, parents, consumers and citizens.

The market is the spontaneous order most associated with liberal modernity. Unlike science, in principle the market is open to serving a wide range of values, so wide that some have argued the market really is civil society (Palmer, 2002). This paper will not discuss democracy, which will be addressed in future work. My initial study of many of these issues within a democratic context appears in Persuasion, Power and Polity: A Theory of Democratic Self-Organization (diZerega, 2000). Here I focus on the market.

CIVIL SOCIETY, FREEDOM AND BUSINESS

For many years I was a small businessman, retailing and wholesaling my printed artwork.2 I wanted to support myself and have time to write a doctoral dissertation. If I had gotten an “8-to-5 job” I knew I would never finish it. Adjunct teaching was too unstable for me to plan very far ahead. Creating my own business seemed a better bet. Once my business was up and running I found out that I also enjoyed helping out various communities with which I identified, performing charitable acts, and so on. To accomplish any of these goals involved using limited resources that therefore could not be used for other purposes. Every choice I made took place within a context in which it was my unavoidable responsi-
bility as well as freedom to weigh different options against one another. Every decision had an economic dimension relevant to the flourishing of my business, but every decision save the most narrowly business-oriented ones also incorporated other values as well, some of which conflicted directly with narrowly economic considerations. My business existed within the realm of freedom.

If another person had owned “diZerega Graphics” he or she would have been in the same situation as I but would likely have made different choices with regard to the values they expressed. I gave to conservation groups; they might instead have given to the YMCA or a theater, or perhaps not at all because raising a family came first. Or maybe the person would have simply been selfish. These contrasting choices cannot be ranked on some universal scale of better and worse, with the owner doing a better or worse job of acting in accordance with the scale. Instead the available options enable individuals to express, empower, and develop their own individuality in cooperation with their equals.

In terms of my definitions, my business existed within civil society. It also existed within the market. If I wanted my business to last, I needed to manage it profitably; I had to take market feedback seriously, but I did not need to maximize profits over all other values. Whether or not I did was my choice. For me prices served as signals in Ludwig von Mises’ terms, signals that enlarged my ability to pursue many different values in a way that seemed to me appropriate (Mises, 1949/1966). Market-derived prices helped me make wiser and more effective use of my resources in the pursuit of values important to me. The market enlarged the scope of my freedom and enabled me to make more effective use of it.

**Freely leaving freedom**

Let us suppose I abandoned academia and decided to grow my business. To do so I need to raise capital by going public and offering shares. Perhaps my family and I will initially remain the largest shareholders, but many other people also purchase shares. Let us further suppose that among them are people who believe the shares are under-valued, and that with a different managerial strategy and hierarchy of priorities the enterprise, while currently profitable, could become more so.

These people began buying up shares intending ultimately to change management to one they believe will be more efficient. They offer shareholders a premium over what shares currently sell for, a premium that is still lower than what they anticipate shares would be worth under different management. Once they have obtained at least 50% plus one of the shares, they install new management which then runs the corporation to maximize share value. If they are right they will profit from their plans.

Economists generally endorse this method of replacing management, describing it as a means for eliminating ‘in- competent’ managers and promoting greater efficiency in the use of resources. It is also often described as a check on the problems described in the Berle-Means thesis, which is that ownership has become separated from control. Supposedly it enables shareholders rather than managers to control the business (Manne, 1962).

I am a political scientist and I view this process differently. Without denying the economists’ claims, something else has also happened. As my company fell under new management based on owners’ intentions to maximize share value, it left the morally complex world of civil society and entered the morally simpler world of capitalism. The difference between capitalism and civil society is that in capitalism prices trump all other values whereas in civil society they are one of many. Corporate managers are expected to fulfill their “fiduciary duties” to their shareholders. More importantly, the market system itself seriously penalizes and ejects anyone who does not act in this way by subjecting them to takeover bids. Capitalism contains powerful internal mechanisms for eliminating any behavior that does not serve these values. In capitalism, it is capital that “rules.”

My distinction between individual and systemic success now moves to center stage. The market order is that great impersonal exchange network that Hayek described, impersonal in the sense that participants need not know one another, and guided in their actions by signals emerging from the price system. Capitalism is a phenomenon of the market order. In capitalism, systemic success becomes the only measure of success, and people are compelled by systemic factors to serve it or be ejected from significant decision-making within the system. In capitalism everyone is akin to being an employee within a decentralized business. In such a firm, each is free to use his or her own insights to increase the firm’s profit, and is rewarded or penalized accordingly. People within capitalism play similar roles.

**THE END OF OWNERSHIP**

John Locke and many other early liberals conceived ownership as uniting the power of control with the responsibility for use. I control what I own, and am responsible for it. With the advent of the joint stock corporation something usually
unnounced began happening to the traditional idea of ownership. *It began to disappear.* Today ownership by human beings has disappeared over large areas of economic life.

The traditional idea of responsibility over the use of your property does not hold for corporate “owners.” “Owners” of corporate shares are not personally responsible for the firm’s actions. Further, very few of the largest corporations have a majority shareholder. Most people own tiny percentages, particularly in the largest corporations. Unless they are majority or at least very large shareholders, these “owners” have no direct influence over what the corporation does. Decisions are made by management, and management is independent unless ousted by a proxy fight or by the Board of Directors. So long as shares do well such an ouster is unlikely.

In addition, in many cases corporate shares are owned by mutual funds. In these cases many “owners” have no idea of even what they “own.” I own shares in a mutual fund that owns shares in corporations and pays me the collective dividend derived from all the shares owned. When the market prospers and the fund chooses well, I prosper. When the market does not do well or the fund chooses badly I do not do well either.

“Owners” of corporate shares are neither responsible for the corporation’s actions, nor are they in most cases able to influence its actions. Two major elements in the traditional idea of ownership have disappeared.

In response to my argument, a traditional economist might argue that any “owner” who discovered the company acting unethically—or in some other way to which she strongly disagreed—could sell her shares in protest. But how does this deter unethical behavior? If I see someone robbing a person who then promises to give me some of the loot if I do not intervene, and I tell him I will not accept the stolen goods, but otherwise do nothing to stop the robbery, I have not acted very ethically.

Shares sold by people who objected to what they regarded as unethical behavior would be purchased by others either ignorant of what was happening or who did not care. In purely economic terms, selling a share for ethical reasons does not lead to increased pressure to change the objectionable behavior. Rather it *rewards* those not ethically troubled. Disaffected sellers would exert a downward pressure on share prices, enabling knowledgeable buyers with fewer scruples to buy additional shares anticipating an even greater return for themselves from the unethical behavior than would have been the case had no one sold in disapproval. When apartheid prevailed, many progressive groups urged divestment from companies doing business in South Africa. One argument often given against the strategy was that the shares would simply be purchased by others with fewer scruples.

If the unethical behavior is profitable, which is normally why it is done by a corporation, selling shares imposes a financial loss on ethical shareholders selling in protest while enabling less ethical or knowledgeable shareholders to make a greater financial gain! This kind of “ownership” *penalizes* ethical behavior as compared with unethical behavior. It is the opposite of what we normally mean when we say someone “owns” something.

**Systemic ownership vs. individual ownership**

If something like ownership exists, we need to look elsewhere than to shareholders to find it. A primary characteristic of ownership is control over what is owned. If ownership requires control, then it is the market (rather than shareholders) that owns corporations. *Shareholders become the market’s agents.* Their job is to shift capital to where it will bring the greatest profit. Their profits are their *fee* for doing their job well from the standpoint of market values. In its purest form capitalism eliminates ownership in the liberal sense.

Corporations are as responsive to market dictates as a human-created institution can be. The market dominates what companies do on pain of their being taken over by other companies operating in even greater harmony with market incentives. Like the market, a corporation is theoretically immortal while individual owners and managers come and go. If we want to keep the term “ownership” in capitalism, then in this case individual ownership has been replaced by *systemic ownership.* Shareholders are employees of the system; they are rewarded to the degree they serve its values.

When individuals own property their realm of efficacious action in the world expands as their ownership increases. Ownership increases power. This is why early liberals so liked the smallholder. While not rich, the smallholder had enough independence not to be bribed or controlled by others in order to survive. His or her realm of moral freedom and responsibility remained strong.

When the market “owns” property, the same dynamic occurs. But this dynamic is not for human beings. The profits shareholders make for investing wisely are the income the market provides so that its property is well managed, very much as corporate managers obtain income for competently managing property they do not own. Bad managers are ejected, and so are shareholders who put other values ahead
of profit. “Ownership” has shifted from individuals to the capitalist system, and rather than enhancing individual freedom the system requires individuals to serve its values on pain of gradually or quickly losing their fee for managing its assets, to be replaced by better managers.

If private property is thought of as an atom, in capitalism the atom has been split. The split released enormous market power previously kept in check by the rich complexity of the human character and its immersion in civil society. In the process the moral responsibility traditionally entailed by the concept of ownership has disappeared. And like splitting the atom itself, this power can be used for good or for ill.

The value released by splitting the atom of ownership is an instrumental value. When market logic and relations become independent of civil society, the only value remaining is instrumental value. Something is valuable in the market only due to its value to others. No intrinsic value exists. A system recognizing only instrumental value subordinates everything to the impersonal processes of the capitalist order.

Over time the operation of an impersonal market in the context of corporate production squeezes moral depth out of human action. Today many corporations have pretty much freed themselves from the world of human values, whereas privately held companies remain a part of civil society, still existing within the realm of freedom. Koch Industries is privately held, and Charles and David Koch can legitimately be considered responsible for its actions, good and bad alike. On the other hand, if General Electric (GE) does something good or bad, as a tiny owner of GE stock I can neither reap praise nor blame, even when that praise or blame is attenuated to reflect the percentage of shares I own. I have as much influence over GE as I do over Apple, where I own no shares at all.

The vast and anonymous network of exchanges coordinated by price signals, a network Hayek termed the “market order,” is not identical to capitalism. Capitalism is that part of the market order where coordination is not only managed through signals by prices reflecting instrumental values. In capitalism, those signals have become commands. This distinction is not based on size.

**Managerial responsibility**

Many important economists appear to have missed this transformation in the character of ownership, or refuse to consider its implications. This is most obvious in their discussions of corporate management. If shareholders are investment agents for market values, managers are its day-to-day coordinators of production for profit.

There is a long-lasting debate over the issue of “corporate responsibility.” Some have argued that when making their decisions, management should take values other than money profit into consideration. This argument has been attacked by classical liberal economists. For example, Milton Friedman (1970) argues that a corporate CEO should never use company resources for anything other than making anonymous shareholders as much money as possible. The manager is a trustee of other people’s property, and so must use it in their interests. To do otherwise would be misusing shareholders’ “property.” By implying that no value beyond money-making should motivate CEOs, concepts like “social responsibility” has no legitimate role to play in the corporate world.

But as I have pointed out, shareholders may in fact not approve of what the company is doing even if they want to make money. When shares are widely dispersed there is no way for shareholders to make their values known, nor is there any way for the manager to take those values into consideration.

Persuasive research indicates that few if any of us other than the greedy and the pathological care mostly for money (Fleming, 2011). There is good evidence that once past a certain point, monetary incentives can even backfire in fields such as banking (Anderson, 2009). To make a very serious rhetorical point, any academic who argues money and what it can buy is people’s primary incentive must admit they have objective evidence for their own comparatively inferior talents, for compared to equally or less highly educated positions in the business world most academics make relatively little money.

If like Pinocchio a corporation suddenly found itself transformed into a human being, what kind of human being would it be? It would be constrained only by the thin ethical framework of the market, and then only insofar as it could count on market rules being enforced. Everything and everyone would be valued instrumentally, as a resource. People who regard everything and everyone as a means to their purposes and otherwise without value are called sociopaths: profoundly defective people without consciences.

Corporations are essentially institutional sociopaths, but without the personal weaknesses and legal responsibilities that often bring human sociopaths to grief. The more effectively they are subjected only to market feedback, the less opportunity other values held by managers have to be given weight. Prices cease being signals to owners, becoming commands to officers who will be ousted if others notice
they do not ceaselessly seek to maximize corporate profits as reflected in share prices.

Of course some corporations do good things. But insofar as they act in keeping with market dictates and Milton Friedman’s logic they do them not because they are good, but because they are expected to pay off. Ethical CEOs may implement a policy because in their eyes it is the right thing to do. But if these ethical actions hurt share prices, such CEOs act at the risk of losing their positions. The contemporary battle over control of the profitable Market Basket supermarket chain is an excellent example of this dynamic (Syre, 2014).

Emphasis will also tend to be on short-term values. The complex values accompanying ownership no longer count for much among shareholders, and the logic of hostile takeovers forces incumbent managers to focus on short-term value because that is what corporate raiders do. These are systemic phenomena not reducible to simple individual choices, because the system rewards such behavior and actively selects for it.

REVEALING EXCEPTIONS

New corporations still controlled by their founders are a major exception to my contention. So are many family-held enterprises. When the original entrepreneur is still in charge, her personal values still influence how the organization operates. Having created a new business, entrepreneurs typically enjoy considerable leeway in how they act, at least so long as the enterprise remains profitable. They are primarily entrepreneurs and creators, not managers. Families often have a sense of tradition and responsibility to more than maximizing the value of their shares. They will also frequently act in ways different from what the logic of capitalism demands.

What follows are three examples of these exceptions, and some challenges they faced that in two cases defeated them, and in the third likely will.

1. A family-held company turning public: Pacific Lumber

The family-owned Pacific Lumber Company was once the largest timber company in northern California. When Pacific Lumber went public to raise more capital it was already a long-established company that was both profitable and committed to the well-being of the logging communities that had arisen around its holdings. It was also widely regarded as being ecologically responsible.

Soon after Pacific Lumber went public the company was taken over by corporate raiders who increased short-term profits at the expense of long-term sustainability. Financier Charles Hurwitz, a Texan with no knowledge of or previously demonstrated interest in forestry, acquired the Pacific Lumber Company through an unfriendly takeover (Harris, 1996; Chase, 1995, 201-13). Earlier, the company had logged at a slow rate, making a profit the family found satisfactory, maintaining healthy forests and logging communities, and enjoying the support of the environmental community. But these latter values meant their stock was less valuable than it might be if values other than profit were ignored. In purely economic terms the company was “undervalued,” making it vulnerable to a takeover financed by high-interest bonds.

In order to pay interest on the bonds they had used to finance the takeover, Hurwitz and his company, MAXXAM, accelerated logging to twice its former pace. All other considerations were set aside. The result outraged California’s powerful environmental community and caused serious ecological devastation from landslides on denuded hills in a landscape of unstable slopes and torrential rains. Protests became a standard feature in news from Pacific Lumber’s lands. Ultimately regulations were set in place to require sustainable practices by the company, which given the size of its debt could no longer operate both profitably and sustainably. Pacific Lumber filed for bankruptcy in 2007.

On purely economic terms, Hurwitz acted appropriately. He might even be said to have acted in a way beneficial to the economy as a whole. That was the position in discussions of the issue in the Wall Street Journal (McCoy, 1993). But what seemed clear within the narrow value framework of capitalism was pretty clearly not the case in a broader context. The contrast between the two judgments helps underline the difference between civil society as a thick field of human values and the market as a thin one.

2. A long-time family-held company: Cadbury Chocolates

Before going public in 1961, Cadbury chocolates had been a private family-held company for 170 years. Its culture and priorities reflected the family’s Quaker values. Direct family control ended in 1962, but the company remained dominated by a family trust until the directors’ fiduciary obligations to the trust led to diversification in share ownership, and therefore to loss of its dominance in the company. In 2000, the Cadburyys no longer sat on the Board of Directors and the family directly owned only one percent of company shares. The stage was set for the conversion of Cadbury into the capitalist order. In January, 2010, Cadbury was taken over in an unfriendly acquisition by Kraft Foods.

3. A temporary battle over control: Market Basket Supermarket

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The history of the Cadbury chocolate company and similar Quaker-owned firms is inseparable from the rise of the industrial British economy. Because of their devotion to ethical business and to serving society as a responsibility to God combined with personal sobriety, these business leaders not only played an important role in England’s rise; they were also powerful forces for social reform, starting with Quaker campaigns against slavery. The Cadburys were also active in the peace movements before World War I, key supporters of improving the purity and healthiness of often seriously adulterated foods, and active advocates for improving the conditions of the English working class and the poor. The Cadburys put their money behind their words, most impressively through building the first large-scale “Garden City,” Bourneville, which remains prosperous to this day. Their efforts were usually intended to be economically self-sustaining, but importantly, were not managed to maximize profit.

With the aid of hedge funds, Kraft Foods managed a successful takeover bid once shareholders were sufficiently atomized. Hedge funds held five percent of Cadbury shares before the offer from Kraft, and 20 percent a few weeks later, anticipating Kraft would pay still more, which they did. Shortly before the takeover, short-term investors held 31 percent of company shares. They had bought only to sell. Hedge funds are perhaps the ultimate expression of capital-ism. Someone might point out that 31 percent is still not a majority. But ordinary shareholders were little more owners than were the hedge funds. In Chocolate Wars, Sir Dominic Cadbury is quoted as saying that:

the shareholder is the owner of the business. But the difficulty . . . is that they are not acting as owners of the business . . . There are thousands of shareholders in Cadbury who probably would have said they didn’t want to sell their shares and would have voted against. But they didn’t have a vote, because if you are the average shareholder, you don’t hold your shares personally; you hold your shares through your pension scheme or your bank. In the case of Cadbury sixty fund managers made the decision. (Cadbury, 2010, 304)

Ironically, at the time of purchase Cadbury was actually more profitable than Kraft. In addition, while no longer Quaker, its management had continued operating in harmony with much of the company’s Quaker-influenced culture, which included a commitment to the broader community of which the company was a part, and towards the longer rather than the shorter term view of company well-being. Deborah Cadbury (2010, 280) quotes Todd Stitzer, Cadbury’s Chief Strategy Officer as telling her that “[w]e consciously said in 2003 that we were going to modernize and magnify the George Cadbury principle that doing good is good for business.” Stitzer told her the company’s founders “weren’t just philanthropists… ‘They were principled capitalists.’ They worked as long-term stewards, committed to all the stakeholders in the business—the staff and the wider community — not just to gains for themselves as owners” (ibid.).

This ethical commitment to the broader community and the longer term was ultimately the company’s downfall. Its problem was not incompetence. Its management outperformed Kraft’s. Nor was it in failing to turn a profit. It did. The company’s failing was its managers having the priorities of an actual owner, with a sense of responsibility and of the larger universe of values, which it believed the instrumental values reflected in prices were to assist rather than dominate.

Like the other major chocolate and confectionary companies started by men with a strong ethical visions, such as Rowntree and Hershey in the United States, today Cadbury is fully integrated into the capitalist system. As MAXXAM’s assurances for preserving the culture of Pacific Lumber were quickly abandoned and promises set aside, the same happened with Cadbury (Cadbury, 2010, 301).

3. Corporations whose founders are still in charge: Starbucks

Starbucks provides its employees with far better medical coverage than do most businesses hiring people with similar skills. This policy is one founder Howard Schultz believes in because of his own life experiences. When the company entered a tough stretch share prices fell, and executives urged him to cut back on health coverage. Even so he continued to maintain generous health benefits. When some executives argued Schultz could say he had no choice because of the company’s financial difficulties, he replied there was always a choice. For Schultz, Starbucks remained in the realm of freedom (Schultz, 2010, 213-4). Prices were signals.

Had Starbucks been a typical corporation, whose original founder was long gone, the employees’ health benefits would have rapidly been cut down to the “industry standard.” Doing otherwise would have been to sacrifice shareholder value to other considerations. Revealingly, Milton Friedman’s argument would support Schultz in his decision but condemn corporate managers for making the same decision.
For better or for worse privately held companies reflect their owner’s character. Pacific Lumber and Cadbury embodied long-established visions of ethical behavior and community responsibility pursued within profitable market institutions. In Cadbury’s case the company was worldwide in scope. Howard Schultz’s personal values explain Starbucks’s generous medical coverage. They exemplify the freedom the market can bring to talented and creative people. Pacific Lumber and Cadbury also show us the ultimate fate awaiting Starbuck’s. When Schultz goes, its unusual attention to its employees’ health will go as well, probably sooner rather than later. Starbucks today may be in harmony with the market, but it is not in harmony with capitalism.

On balance, corporations institutionalize sociopathy and give it enormous power to shape economic decisions. Within the operational logic of the corporate world everything is either a means for making money, an impediment to it, or irrelevant. Corporations demonstrate how a system of coordination can take on a life of its own and not only better coordinate people’s actions that they deliberately could themselves, but do so in ways in which every non-sociopathic participant would disapprove.

INSTITUTIONAL SOCIOPATHS AND A CONTRAST

My previous section was taken from a wide-ranging selection of enterprises. This section focuses on a single field, pharmaceuticals. I take three examples from a single industry to illustrate how corporate logic and “ownership” by the market encourage and reward sociopathic behavior. A fourth example, taken from the same industry, demonstrates that these problems are due to capitalism, not the market.

1. K-V

Progesterone is a drug for preventing miscarriages and premature births in high-risk pregnancies. It has been available for years. The drug was long made by compounding pharmacies and has been widely employed. During this time progesterone was available for between US$10 to US$20 a dose, administered weekly. According to Jacques Moritz of St. Lukë’s-Roosevelt Hospital, “Progesterone is so cheap to make and we never had a problem with the compounding pharmacies making it” (Hutchison, 2011a, no page number).

Progesterone recently won US Food and Drug Administration (FDA) approval to be exclusively marketed in the United States for seven years as “Makena” by K-V Pharmaceuticals of St. Louis. FDA laws prohibit pharmacies from making FDA-approved products. K-V then announced a price hike on this long-used drug: from US$20 to US$1,500 a shot (Hutchison, 2011b). Neither US$20 nor US$1,500 is a typo. K-V also sent letters to pharmacies threatening them with FDA punishment if they compounded their own version of the treatment, as they had for years.

Once criticism of their actions arose from physicians, the American College of Obstetrics and Gynecology, the American Academy of Pediatrics and the Society for Maternal Fetal Medicine and the March of Dimes, K-V’s people began saying for obvious political reasons that they would make Makena available to poor mothers. But the only reason for the price hike was to make as much money from families as the company believed the market would bear while not provoking a political backlash. Middle-class mothers and insurance companies would not be as fortunate as hypothetical poor mothers.

The usual reasons pharmaceutical companies give for high drug prices do not hold in this case. The treatment has existed since 1956. Progesterone has long been made by doctors using already existing pharmaceuticals, and the FDA’s tests on its effectiveness were paid for by the National Institutes of Health. Kevin Ault (Hutchison, 2011a, no page number) of Emory University School of Medicine observes that “[a]ll the upfront development of the drug was done by the National Institutes of Health. You and I paid for that with our tax dollars, it’s not like this pharmaceutical company is trying to recoup its investments in research and development, as is usually the reason for the price of new drugs.”

The price increase from US$20 to US$1,500 boosted the total price for the treatment from US$400 to US$30,000. It guaranteed serious financial and other sacrifices by many young families, a huge increase in insurance rates for programs covering pregnancies, and almost certainly an increase in miscarriages. Many people would have to do without the drug and hope for the best. Sometimes the best would not happen.

Only a person with a vestigial conscience or an ability to rationalize anything would impose such a price hike in a medication whose sole reason for existence is to save the lives of babies. K-V is managed by such people. The firm acted as a sociopath.

As it happened, K-V miscalculated. While the FDA has the authority to crack down on compounding pharmacies it is not obligated to do so. Representatives Sherrod Brown (Democrat, Ohio) and Amy Klobucher (Democrat, Minnesota) along with medical and patients’ groups led a push for
a change. In late March, 2011, the US Food and Drug Administration (2011, no page number) announced that “[i]n order to support access to this important drug, at this time and under this unique situation, FDA does not intend to take enforcement action against pharmacies that compound [Makena] based on a valid prescription.”

The Los Angeles Times (Zajak, 2011, no page number) wrote that after the FDA announcement “K-V said it would do more to make the drug affordable, but did not say it would lower the price.” As K-V put the matter, “[b]ased on feedback the company has received, we are currently exploring additional ways to help provide affordable access for all patients who are prescribed Makena” (ibid.).

From the standpoint of increasing share value K-V acted completely rationally. A CEO who did not do this when he had the opportunity would become vulnerable to a group seeking to take over the company, oust current management, and then impose the price increase.

These kinds of sociopathic actions are regarded as rational by economists because rationality has become a free-floating concept linked to expanding income by minimizing costs and maximizing profit. All that matters is acting with maximum efficiency, which means treating everything and everyone as resources, impediments, or irrelevant. Goals are not rational. For economists push pin is as good as poetry. Only the means to attain them can be more or less rational, and market rationality is evaluated through maximizing efficiency in attaining goals defined in monetary terms.

2. Genentech
Genentech discovered a great drug for fighting colon cancer: Avastin. Happily for them, Avastin is also very profitable. Doctors later discovered its cancer-fighting qualities could also be used to combat wet macular degeneration which mostly occurs in older people (this affliction is not the most common sort of macular degeneration). The reason is that Avastin retards growth of new small blood vessels that either could feed the cancer or proliferate in the eye and destroy vision.

The problem for Genentech was that while it took a lot of Avastin to fight colon cancer it took very little to fight progressive blindness through wet macular degeneration. Treatment with Avastin for wet macular degeneration was between US$50 and US$150. But the inner logic of Genentech’s corporate structure necessarily put money profit ahead of everything else. So Genentech decided to make a much more expensive substitute just for the eye. They got FDA approval and marketed it under the name Lucentis. Unlike Avastin, when used to treat wet macular degeneration Lucentis would make Genentech a huge amount of money because a course of treatment would cost US$2000.

However there was a problem. Howard Brody at Hooked reports that if everybody with macular degeneration used expensive Lucentis it would use up Medicare’s entire eye treatment budget. Consequently, many doctors kept using the much cheaper—and to their minds just as good—Avastin.

Despite physicians’ satisfaction with Avastin, when the controversy between the two drugs arose, Genentech discouraged testing Avastin’s effectiveness in treating wet macular degeneration. The company claimed that tests were unnecessary because Avastin could not work very well (Brody, 2007).

Genentech also escalated their pressure on the medical profession, threatening in 2007 to cut off supplies of Avastin to anyone who made it available for eye use. Genentech claimed it was concerned about “safety issues,” because compounding pharmacies were dividing Avastin into smaller quantities needed for eye treatment. In November 2007, the American Academy of Ophthalmology protested Genentech’s decision as threatening lower-income patients and argued they had seen no evidence of safety problems. In the face of doctors’ protests, Genentech backed down and said it would continue selling Avastin to physicians, and ship it to destinations of their choosing, including compounding pharmacies.

In 2011 neutrally conducted tests were released indicating no significant differences in effectiveness existed between Avastin and Lucentis (Biotech, 2011). There was a 5 percent difference in adverse effects that favored Lucentis, but given the nature of the tests this was not considered a strong finding; it was very likely related to differences in the average age of the two groups of patients (LifeTech. 2011).

3. Medical shortages
On June 10, 2011, CNN reported that there was a growing shortage of certain important drugs in the United States. In 2010, 178 drug shortages were reported to the FDA, including cancer drugs, anesthetics used in surgery, medicines used intravenously and others used in emergency situations. Valerie Jensen of the FDA reported that “companies have told us that these injectable drugs are older drugs and not as profitable … They told us it was a business decision to discontinue production” (Kavilanz, 2011). The drugs were profitable, just not as profitable as others still covered by patent monopolies.
4. The Institute for One World Health

Victoria Hale has a PhD in pharmaceutical chemistry and worked initially for the FDA and later for Genentech. In a talk I heard her give at PopTech in Camden, Maine, in 2007, Hale had only good things to say of her work experience at both places, with one proviso – she finally left Genentech because they were increasingly focused on research for the wealthiest fraction of the population whereas she, and many other scientists, had entered medical research to assist people in general, and not just the already-have-mores.

Hale’s point is an important one to remember. Most people employed by corporations are not sociopaths. They may be quite devoted to serving humanity or some other value, and choose corporate employment as a place where their skills can bring in a decent income and put to productive use. But within a company, how those skills are ultimately used is not up to those with the skills but to managerial priorities. And managerial priorities are shaped by the commands of the capitalist system. So long as their contributions to the company cannot be acquired more inexpensively elsewhere, employees will be well treated.

In terms of this paper’s argument, Hale’s priorities were part of the value-rich matrix of civil society, whereas Genentech’s were in accord with the value-thin matrix pursued within capitalism.

After Hale left Genentech she was, in her terms, “quiet” for a while, as she tried to figure out what she would do next. Ultimately she founded the first not-for-profit pharmaceutical company, the Institute for One World Health. Estab

lished in 2000, the start-up’s capital did not come from venture capitalists, who generally want as much money as possible on their investment. Hale deliberately avoided them. It came instead from foundations and philanthropists. She sought support from civil society. Her company needed to make money, but that was not to be its primary goal.

In her PopTech! talk Hale described Kala-azar as a fly-borne parasitic disease killing many children in south Asia and elsewhere. Around 500,000 new cases a year are reported. Before OneWorld Health began its research, a cure cost US$300, which meant that most afflicted children died, especially girls. OneWorld Health developed a US$10 cure, and the governments of India, Bangladesh and Nepal then bought enough to provide free treatment to their poor. Potentially, the disease will be eliminated in these countries because the parasite will be unable to complete its life cycle.

Malaria is another large-scale killer of human beings, particularly children. Treatments are available through the drug artemisinin. It is derived from the wormwood plant and is in short supply. OneWorld Health (undated) states on its website that “[t]o get this essential treatment into the hands of the sickest children around the world, we are using synthetic biology techniques to produce a reliable supply of artemisinin at an affordable price. Collaboration with Amyris Inc. to develop the process is successfully completed in 2009. With partner sanofi-aventis, we have scaled up the process for commercial scale manufacturing and are currently preparing to ramp up production. Our goal: produce enough semisynthetic artemisinin to treat up to 200 million malaria sufferers each year.” In 2011 production of semisynthetic artemisinin began in partnership with a large pharmaceutical company.

Hale’s Institute for OneWorld Health is as much a part of the market order as is Genentech and K-V. But it is even more fundamentally a part of civil society. In my specialized terminology it is not a capitalist firm, it is a market place institution using price information as signals to more efficiently pursue goals the prices themselves do not determine. Its goals are those established by Hale and her associates, goals that reflect the depth and complexity of human values rather than the shallow one-dimensionality of capitalist ones. Hale's OneWorld Health has transformed the lives of thousands of poor families as she realizes her dream of putting her and others' scientific skills to use while serving humanity. Unlike the examples of K-V and Genentech, with One World Health the market serves liberty and the rich context of human values able to be pursued within civil society.

VI. Economy and ecology

Many previous examples involved actions by major corporations in different lines of business; these corporations pursued profit no matter how many people would be injured in the process. I contend such actions are not primarily the result of moral failings by individuals, though moral failings were definitely involved. Some individuals have such failings, but why do they seem to concentrate at the top of corporations? Even if bad people make the final decision, it is the system of selection that helps elevate bad people to positions where they can make the decisions they do. It is the system that protects them from the adverse consequences of their actions, and usually abundantly rewards them.

I want to suggest we are seeing an emergent quality within capitalism as contrasted with a market order embedded within civil society. When a spontaneous order becomes independent of civil society its simpler feedback values undermines individual freedom; it inhibits expressing the rich-
ness of human moral life by making one type of feedback dominant. Such systems select for leaders who are not bothered by doing what it takes to thrive in such an impoverished ethical environment.

But beyond critique, what new lines of research and understanding open up with this richer, more nuanced but also more tension-filled conception of the market order, both capitalist and non-capitalist, and of civil society?

Much remains that is familiar. We retain the Hayekian emphasis on the free movement of prices and freedom of entry as essential in preserving the role prices play in coordinating independently chosen plans. We retain the central importance of contract, private property rights, and money. We retain the critique of schemes to intervene in the market process by price controls, monopoly licenses, central planning, and similar interventions. We retain the ethical commitment to voluntary relationships as preferable to those which are coerced.

But in this paper we have identified at least one new challenge: how to maintain the market as a realm of freedom and not of systemic control. How do we maintain prices as Misesian signals without allowing them to become commands?

We can also see how there can be systemic coercion. No one gives an order, no one points a gun, but the range of values a person can pursue without being penalized by the system is narrowed dramatically. It is the system that “owns” property and the system that “gives orders.” Like fire, spontaneous orders are wonderful servants and fearful masters.

**The ecological model**

Analyzing “ownership” under capitalism brings home the profound shift in human status in the shift from a market economy immersed within civil society to one operating increasingly outside it. But in capitalism the term “property” seems more metaphorical than analytical, and while metaphors have important uses, the best of them within the context of a social science creates a new and deeper theoretical framework. Here I think the term “capitalism as ecosystem” holds more promise.

Similarities between the market and ecosystems are frequently described from the perspectives of both the social and biological sciences (Vermeij, 2010; Heinrich, 2004; Rothschild, 1990). Markets and ecosystems are both “discovery processes” where independent actions are coordinated in ways that facilitate more successes among participants than could be attained in any other way. This happens through systemically generated feedback signals. For years I emphasized this point in my own writing without trying to take the comparison as far as I will now (diZerega, 1997). Much can be illuminated by taking this comparison as more than a metaphor.

I suggest we consider capitalism as an ecosystem. In the market as it exists in civil society prices are signals and actions reflect the moral complexity of human beings. In ecosystems, whatever organisms do, they are always subordinated to systemic demands if they are to survive. Capitalism is an ecosystem where the dominant life forms are corporations and money is the resource they seek competitively, a resource that enables them to survive and grow. It operates largely independently from human values, although it depends on human choices.

Civil society is a realm of freedom because it is not an ecosystem. Its many systems of feedback prevent any single system from determining who prospers and who does not. In civil society all that needs to hold about a potentially fruitful course of action is that it is compatible with equal status and voluntary agreement. Capitalism weeds out the relevance of most of these signals. What remains is profitability and—in second place—whatever values are in harmony with maximizing profit.

In this way signals in a complex order become commands within a simpler one.

**From master to servant**

The capitalist ecosystem as it has evolved in the United States offers little in the way of evidence that it can be dissuaded from colonizing larger and larger dimensions of civil society, imposing what Sheldon Wolin (2008) calls an “inverted totalitarianism.” But another market system, equally rooted in voluntary contractual relations, offers some alternative possibilities. Its fullest contemporary expression is the Mondragon cooperatives in Spain.

Jose Maria Arizmendi was a former opponent to Franco during the Civil War who narrowly survived it, and afterward, as a Catholic priest, was assigned to the small poverty-stricken town of Mondragon in Spain’s Basque region. In 1943 he established a credit union and a small polytechnic. In 1956—along with five of its graduates—he purchased a small stove-making company. They organized it as a worker-owned cooperative with 30 members.

Carl Davidson (2011, p. 4) writes that “this small start-up in 1956 contained the first secret of MCC’s success—the three-in-one combination of school, credit union, and factory … Starting a coop factory or workshop alone wouldn’t
work: a startup also required a reliable source of credit and a source of skills and innovation."

The little company prospered and today has 8,000 worker-owners and markets household appliances worldwide, including to the United States. By the mid-1970s the original small cooperative had grown to 45 companies with 17,000 workers. In 2010 there were 120 companies with almost 100,000 worker-owners in Spain, Portugal, and France. These cooperative firms are involved in a wide variety of enterprises—from producing computer chips to racing bicycles. Cooperative retailer Eroski has kept Walmart out of Spain by out-competing it. They also possess Spain’s largest R&D complex and have recently established a university. In 2009, total sales amounted to €13.9 billion; the Mondragon cooperatives weathered the economic crisis that hit Europe in 2009 with less damage than more traditionally organized companies.

As Fr. Arizmendi developed his ideas he solved two related problems that had long plagued worker-owned organizations. The first was how to enable a second generation of worker-owners to enter, given that the organization’s success usually priced them out. Many early cooperatives had failed to persist because workers could not afford to buy in as the original workers retired, whereas outside investors could, thereby gradually transforming the firms from co-ops into traditional corporations. In the Mondragon cases a worker-owner is only allowed to sell his or her share to an incoming worker or to the co-op itself. This rule ensures that capital remains subordinate to the richer values able to be expressed within civil society.

Mondragon’s internal financial institutions solved the problem of making membership affordable to working people. Over time Mondragon’s small credit union evolved into different financial institutions, including a bank owned by the businesses and its employees, which is now a major Spanish institution with 394 branches. The bank makes interest-free or very low-interest loans to workers so that they can buy into full ownership, becoming full owners within 10 years.

Workers retire with generous pensions, sometimes 100 percent of their working pay, get health and dental care, and paid vacations. Mondragon’s CEOs make no more than nine times the minimum wage paid to a worker in their particular enterprise. Most earn five times. In practice the spread is even less, because few are paid the firm-specific minimum wage. Yet these businesses compete successfully with more traditionally organized capitalist firms in Europe.

Theoretical implications
What makes the Mondragon cooperative system so interesting from the standpoint of this paper is that by subordinating the role of money in the economy to civil society—rather than enabling the market to separate itself from civil society—powerful market institutions have arisen that are not capitalist. The market remains embedded within (and enriching) civil society rather than undermining it. As the people of Mondragon put it, instead of capital hiring labor, labor hires capital.

In the sense developed in this paper another paradox arises. The Mondragon cooperatives have mostly attracted the attention of socialists who eschew state socialist models of economic organization (Davidson, 2011). As best as I can determine, despite their economic success and their theoretical interest, they have been ignored by pro-market economists.

The positive values usually associated with private property appear to be better exemplified within the Mondragon system than by the dominant corporate capitalist system. The worker-owners’ power of ownership is connected with responsibility. They have exercised it successfully for over 50 years. Mondragon is a part of civil society in a way that capitalism is not. The working community’s values have precedence over maximizing profit, because that value has lost its capacity to subordinate all other values. The market has become the servant of human values rather than its master. Mondragon offers a clear example of insights that we can better appreciate once we distinguish the market order from capitalism.

NOTES
1 That the “state of nature” is essentially civil society is what distinguishes John Locke’s social contract from Thomas Hobbes’s, who has no such concept.
2 Any reader wishing to see some of this artwork can go to http://www.flickr.com/photos/9832882@N06/.
4 http://www.oneworldhealth.org/
5 Our response to malaria: Develop safer more effective treatments to save the lives of children; link: http://www.oneworldhealth.org/malaria
REFERENCES


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COSMOS + TAXIS takes its name and inspiration from the Greek terms that F. A. Hayek famously invoked to connote the distinction between spontaneous orders and consciously planned orders.

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3. All notes should be as end notes.

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