

# Why We Need Less Politics and More Private Governance

*Written by Edward Stringham.*

We've lived through another election season, and this year, as with every years, the candidates competed to tell us about all the ways they were going to use the power of government to make our lives better. Unfortunately, many voters appeared quite sympathetic to the idea that government action can improve living standards and generally make markets work better.

That's the bad news. But, there are also trends at work right now that are bigger than any single election cycle, and while the candidates this year provided little reason for optimism, the voters themselves may be growing skeptical of just how much the government can solve all their problems.

Nevertheless, one of the most important things we can do is really explain and understand how markets, and not government intervention, are our best hope for an orderly and prosperous society.

## To Change Politics: Public Opinion Must Change

As Ludwig von Mises and Frédéric Bastiat point out, economic policy, for good or bad, is ultimately determined by public opinion. That can give us cause for pessimism or optimism, because although a widespread misunderstanding of how markets work translates into bad policies, public opinion can, and often does, change. Until a half-century ago, arguments such as, "We need more housing, therefore government should provide housing," or "We need more affordable housing. Therefore government should put price controls on housing," were common. Today, few people seriously make such claims. When even the median voter in Massachusetts can understand the problems with and vote to eliminate rent control, there is hope about the spread of economic ideas.

Still, arguments such as "We need to reduce fraud. Therefore government needs more regulations" or "Risk is a problem. Therefore government should assume and manage risk" are much more accepted than they should be.

Although faith in government is still widely held, it may be passing its apex and declining. Surveys have found that in the late 1960s about 75 percent of Americans said they trusted "the government in Washington all or most of the time," whereas today the number is only 20 percent. A 2013 survey by Gallup found that a "record high in the U.S. say big government is the greatest threat" to the country, and Pew in 2013 reported that a "majority views government as a threat to personal rights." People are also abandoning

faith in politicians, and today only 9 percent have a favorable view of Congress.

An Alternative to Politics?

But, these doubts about government intervention do not necessarily translate into support for voluntary markets.

Part of the reason that the public have skepticism toward markets is they have little understanding of *how* markets work. Nor do they understand how markets can work to provide order and governance in everyday life.

Among many voters, there is a fear that without governments to intervene, society cannot be structured and orderly.

This has never been the case, and in my book *Private Governance: Creating Order in Economic and Social Life*, I look at how governance can be achieved without what we normally call “government.”

Private governance is created wherever private institutions create order and enforce rules when governments are either unable or unwilling to do so. Time and time again, markets can be found to work even when government is not underpinning them. The standard belief that government is necessary to enforce contracts or allocate goods — to name two examples — is belied by numerous examples throughout history.

Private governance can be found, of course, in the rules imposed by any private club. But private governance is also employed to govern complex institutions, as it was first used by the founders of the London and New York stock exchanges. Similar institutions and rule-making are used today to govern electronic commerce.

In fact, once we begin to contrast the voluntary marketplace with government institutions, we find that the rules of the market are much *more* orderly, stable, and potentially enduring than rules from a monolithic bureaucracy.

Moreover, although progressives worry about corporate power, market-based rules and private governance allow for *more* choice and are markedly more liberal than government impositions and regulations.

Allowing people to voluntarily opt into, or out of, different systems, markets, and communities lets people find the rules that benefit them. In *The Constitution of Liberty*, Friedrich Hayek explains why this is so. “There is an advantage in obedience to such rules not being coerced,” Hayek begins,

*not only because coercion as such is bad, but because it is, in fact,*

*often desirable that rules should be observed only in most instances. ... It is this flexibility of voluntary rules which in the field of morals makes gradual evolution and spontaneous growth possible, which allows further experience to lead to modifications and improvements.*

Hayek goes on to note that non-coercive governance — such as that found in the marketplace — is more likely to allow for the sort of change that leads to economic progress:

*Such an evolution is only possible with rules which are neither coercive nor deliberately imposed. ... Unlike any deliberately imposed coercive rules, which can be changed only discontinuously and for all at the same time, rules of this kind allow for gradual and experimental change. The existence of individuals and groups simultaneously observing partially different rules provides the opportunity for the selection of the more effective ones.*

Widely desirable structures of private governance will become profitable and encourage others to mimic them without any need for coercive “harmonization.” In other cases, *variety* across different markets is a good thing. Just as it does not make sense for the corner store to comply with the listing requirements of the New York Stock Exchange or recreational sailors to comply with the rules of the America’s Cup, a market for private governance allows people to select from different structures that make sense for them. In contrast to government institutions that apply rigid rules universally, the market allows people to opt into different rule-enforcing clubs and institutions in different areas of their lives in various ways they like.

Politics, of course, represents very much the opposite of the flexibility and variety found in private governance. We just spent most of the year hearing from politicians about all the things they were going to do to force markets to behave themselves. But, in spite of what the politicians tell us, the fact remains that order in markets is as attributable to government as much as good literature is attributable to the Government Printing Office.

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