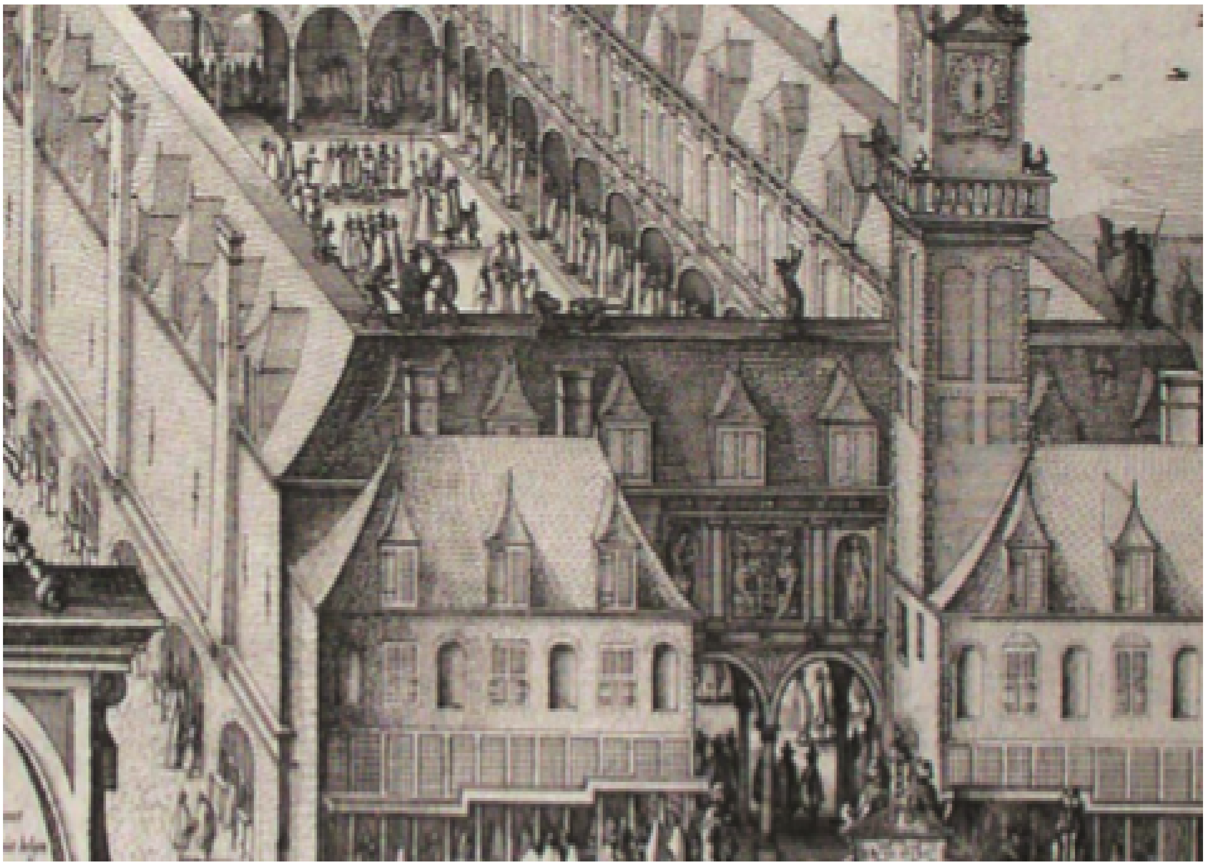

Private Order

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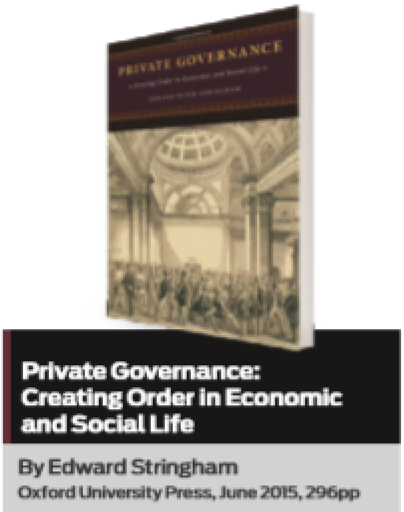
Libertarians hail the wonders of ‘private governance’—the idea that left to their own devices, free people will organise themselves without needing the coercive power of the state. To others, however, this libertarian view is akin to riding unicorns—no one can quite see any tangible examples. All they can see is the power of government, a potent force solving almost all societal problems. Everywhere they look—from zoning to drug laws— the government is there to help. Supposedly, the fabric of society will be torn apart without state coercion. But how do we really know?

Can the cooperation, trust, and voluntary agreements of private institutions outperform coercive government alternatives? This is fundamentally an empirical question. Such empirical evidence, however, has long been lacking.



Enter Edward Stringham's *Private Governance: Creating Order in Economic and Social Life.* This book is an excellent addition to a small but growing collection of private governance literature—including Anarchy Unbound by Pete Leeson and *The Social Order of the Underworld* by David Skarbek—analysing situations where governments don't have the ability, knowledge or incentive to solve societal problems.

For centuries, Stringham claims private individuals have filled the void where government regulation is too costly, too time consuming or is simply unable to be effective. This is private governance.

Most research with a focus on cooperation in the face of conflict uses abstract economic game-theoretic methods (often observing people cooperating in a lab). In contrast, Stringham analyses the real world, asking key questions. How do markets work? What are the mechanisms employed to overcome trust issues? Must a coercive state provide a shadow over private dealings? How is social order provided where the government is either ineffective or simply uninterested in facilitating exchange?

The earliest stock exchanges from Amsterdam to New York thrived, despite governments explicitly banning exchange. Brokers in these nascent stock markets with growing market capitalisation devised their own rules with no recourse to the state. These arrangements were essential in underpinning exchange and making the markets work.

At the London Stock Exchange, for example, rules emerged from within because brokers realised they could make their markets more efficient. Brokers met in coffeehouses (which later became the bustling exchanges we know today) and enforced listing requirements, screened each firms' credibility and required disclosure. As membership grew the cost of defecting on agreements rose. Cooperation was incentivised before the courts become necessary. The rules became a crucial backbone for the development of some of the world's largest financial dealings.

Even now, in the face of what seems like omnipresent state, private governance is widespread—it's just hard to see. Take for instance the fast-moving technology sector. In early 2001, PayPal was losing over $10 million a month to fraud. While fraud is of course illegal, the tools of government are ineffective at catching criminals online, especially across multiple jurisdictions. Governments simply cannot keep pace. With their business in jeopardy, PayPal chose a different path: Prevent fraud before it happens. They developed monitoring systems to detect suspicious transactions in real time. This private governance worked long before governments could even understand what it was.

Stringham also touches on historical examples of private police, such as the San Francisco Patrol Special Police. These examples, however, raise messy questions. When does 'private governance' become 'public governance'? At what point is a private police force no different from a coercive state one? The difference is that private governance mechanisms must compete for their customers. Monopoly state governments do not. For instance, when you choose a credit card, you're choosing between governance mechanisms. The difference between private and public governance, then, is a matter of degree, namely the cost of 'exiting' one governance mechanism and entering another. It seems relatively easy to change credit cards. It's not so easy to change cities.

Definitions aside, the best chapter of the book focuses on the poignant lessons of the great Friedrich Hayek on the market as a discovery process. In regular goods markets, monopoly positions tend to be undesirable because they offer no feedback mechanism. No feedback means less discovery of what the market wants. The same story applies for governance. Competitive governance is a fantastic mechanism because feedback creates an evolutionary selection process. One bank might be cheap and dirty, the other expensive and secure: Your optimum governance mechanism sits somewhere on this spectrum.

There is one important omission in the book—a discussion on block-chain (or bitcoin) technology. A chapter on this would have added depth to Stringham's discussion on private governance. The block-chain brings to life the competitive rivalry between governance structures, removing monopoly and enabling competition. Leaving the provision of governance in the monopolist hands of the state means there is little feedback (democratic voting is slow and expensive) to discover the optimum level of rules for society. The best system enables different governance mechanisms, each with their own unique level and quality of rules to compete. May the best protocol win.

New technologies are increasingly bringing competition back into governance. And when we have competing providers of rules, just like there was between the New York Stock Exchange and the London Stock Exchange, there's an incentive to produce a 'club' good which best suits its members. Technologies such as the block-chain will only make private governance a more effective and pervasive force in the years to come, taking away the government's monopoly position on provision of rules.

Governments are, of course, not always there to help. They are often absent, unknowledgeable, incompetent or simply uninterested. In this book, Stringham provides real examples of where the market has filled that void through private governance. This private order often solves problems before they happen (rather than use the courts after the fact) and it's much more widespread than commonly believed. As research progresses, it will provide irrefutable evidence on the benefits of private governance. Hopefully for libertarians, they won’t have to ride unicorns much longer.