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Inside HSR:

- Is the city a voluntary organization? Urban historian David Beito reveals the voluntary roots of the city and proposes an exciting research program.
- Are governmental central banks necessary for monetary stability? Economist Kurt Schuler examines the literature on free banking.
- Does the growth of state power reflect a struggle among intellectuals — or among economic interests? Economic historian Robert Higgs criticizes historian Stephen Davies.
- Was John Locke a radical? George H. Smith, philosopher and historian, reviews recent scholarship on Locke.

Current Issues in History

Voluntary Association and the Life of the City
by David T. Beito

Urban history is emerging as one of the more exciting fields in classical liberal scholarship. It provides excellent opportunities for truly interdisciplinary scholarship, drawing insights from economics, political theory, sociology, and other disciplines. And, unlike some other subdisciplines, such as political history, urban history has not yet solidified into a rigid set of interpretative and methodological orthodoxies. The field is rife with opportunities for classical liberal scholars.

Urban history was pioneered by classical liberals. The great nineteenth-century French liberal Augustin Thierry conducted highly original studies of medieval Europe's free cities. Perhaps "the greatest French historian of the Restoration,"[1] Thierry produced complementary histories of servitude and domination (for example, his *History of the Conquest of England by the Normans* [1825]), on the one hand, and of liberty (for example, his *History of the Progress and Formation of the Third Estate* [1853]), on the other. He

(continued on page 2)

Bibliographic Essay

Free Banking
by Kurt Schuler

Government control of money seems as natural to most people as the air we breathe. Open the average money-and-banking textbook and you will find a statement such as this: "We now take for granted the goals of full employment, economic growth, and stable prices as almost the *sine qua non* of monetary policy" (Harry D. Hutchinson, *Money, Banking and the United States Economy* [Englewood Cliffs, N.J.: Prentice-Hall, 1984], p. 99). The clear implication is that without a centralized monetary policy the economy would slide into stagnation.

A look at the recent history of monetary policy, however, raises doubts about the necessity, efficiency, or inevitability of centralized monetary control. The record of government-currency management has been uniformly poor in the last two decades. Foreign exchange rates have fluctuated wildly, central-bank policy has had no clear direction, and inflation, though lower than it was several years ago, has not gone away. The unpredictability of government monetary policies has caused enormous expansion of speculative financial markets, for instance in gold futures, foreign currency, and international bank lending ("Eurodollars"). These markets, which offer new ways of spreading financial risks, are often beyond the reach of any government regulation. Central banks are thus finding that their control over monetary policy is rapidly diminishing; financial markets have so much momentum that the best thing for central banks to do may be to stay out of their way.

As a result, some economists have begun to examine the received wisdom about the alleged necessity of government control of money. This has resulted in the current worldwide trend toward deregulation of financial services. The most thoroughgoing approach to monetary deregulation is known as "free banking," which contends that government control, far from being desirable, destabilizes what would otherwise be a smoothly working monetary system. Free-banking advocates call for abolishing central banks and letting competing private producers issue currency. With astonishing speed, free banking has gone from being a concept unfamiliar even to experts in monetary theory a few years ago to being endorsed by two Nobel Prize-winning economists and receiving attention from the business press (see for example, Peter Brimelow's excellent article "Do You Want to be Paid in Rockefellers? In Wristons? or How About a Hayek?" in *Forbes*, May 30, 1988).

(continued on page 5)

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Voluntary Association (continued from page 1)

explored dark and dusty archives (eventually going blind) in search of long-forgotten city charters from the eleventh and twelfth centuries. Thierry and later liberal historians (such as Henri Pirenne, author of *Medieval Cities: Their Origins and the Revival of Trade* [Princeton: Princeton University Press, 1925, reprinted 1974]), were particularly fascinated by the voluntary character of the medieval city, which often originated as a "sworn commune." As Thierry pointed out, the commune represented "the equal association of all, consented to by all, which formed the political condition of these men of liberty, thus separated from the world of illegality and violence."[2]

The typical pattern was this: a group of individuals, often organized in an insurrectionary, mercantile, or religious association, convened and formulated a charter of liberties. Each member of the commune would take a public oath (which would be periodically reaffirmed by new citizens or "burghers") to obey the rules of the charter. Violators of the oath could look forward to expulsion from the community or even eternal damnation. As legal historian Harold J. Berman observed in his magisterial *Law and Revolution: The Formation of the Western Legal Tradition* (Cambridge, Mass.: Harvard University Press, 1983, p. 393): the "charter was, in one sense, a social contract; it must, indeed, have been one of the principal historical sources from which the modern contract theory of government emerged."

It is notable that such oaths were *public*, made collectively by all in front of all. As many economists have emphasized, peace may be a collective (or public) good, meaning that opportunities may exist for "free riding." Because it may be difficult to exclude some from enjoying the benefits of a good and because its consumption may be "nonrivalrous" (meaning that enjoyment of the good by one person does not diminish the enjoyment of another, as in the case of a radio broadcast, for example), it may sometimes be difficult to imagine how voluntary action can provide such goods. In the case of civic peace, while the existence of a peaceful society leads to benefits for all of its members, each individual member may have an incentive to cheat, free-riding off the peaceful behavior of others (which produces greater material abundance), while practicing coercion and theft.

Thus, a thief lives in a society made prosperous by general respect for property; the thief benefits from the respect of others for property rights, but also enjoys the benefits of being a thief. How are such free-riding problems overcome, or at least minimized? In the early medieval period, marked by high levels of random violence, the "Peace of God" movement was launched by the Catholic Church. This movement was largely linked to the needs of profitable church enterprises (monasteries, bishoprics, etc.) for peace and freedom from predation and disruptive violence. By gathering the residents of an area together in one large group to take a public oath to keep the peace, the church leaders created trust among the participants that they would not be the only ones to abstain from violence. Those who refused to take the oath were asked to step aside and identify themselves, so they would be known to the assembled oath-takers. The public oaths of the communes were also supplemented by an effective means of excluding free-riders from enjoying the collective good of peace: repeat or especially violent violators of the peace were expelled from the city and no longer enjoyed the protection of its walls. The importance of the city walls as an exclusion device central to the existence of the city was brought home to the citizens by another feature of municipal law: the fines levied for lesser breaches of the peace were devoted to the maintenance of the walls, the symbol of the peace of the city.

These covenants are the root of the restrictive covenants of modern times, which depend on explicit contract to produce public goods. The functioning of modern covenants as a voluntary mechanism for providing collective goods will be dealt with at greater length later in this essay.

The commune represented "the equal association of all, consented to by all, which formed the political condition of these men of liberty, thus separated from the world of illegality and violence."

Although classical liberalism, as a developed *theory*, dates from the Enlightenment, the roots of modern liberty were to be found in the self-governing commune. Members of a commune enjoyed an extensive body of liberties including equality under the law, the right to be judged in a court by their peers, the right to own and alienate property, the power to elect the officers of the commune, and immunity from feudal obligations. "Public goods," such as roads, courts, and defense, were provided through voluntary associations.

Merchants dominated the formation and leadership of the communes, but membership was open to all classes. Along with the sworn commune and its oath to keep the peace came a revolution in law and a change in the status of the individual. As Pirenne wrote,

> The first thing which should be considered is the status of the individual as it was when city law was definitely evolved. That status was one of freedom. It is a necessary and universal attribute of the middle class. Each city established a "franchise" in this respect. Every vestige of rural serfdom disappeared within its walls. Whatever might be the differences and even the contrasts which wealth set up between men, all were equal as far as civil status was concerned. "The air of the city makes free," says the German proverb (*Die Stadtluft macht frei*), and this truth held good in every clime. Freedom, of old, used to be the monopoly of a privileged class. By means of the cities it again took its place in society as a natural attribute of the citizen. Every serf who had lived for a year and a day within the city limits had it by definite right: the statute of limitations abolished all rights which his lord exercised over his person and chattels. Birth meant little. Whatever might

(continued on page 17)

Book Review

In Search of the Radical John Locke
by George H. Smith

A Review of Richard Ashcraft's *Revolutionary Politics and Locke's Two Treatises of Government* (Princeton: Princeton University Press, 1986)

On November 15, 1688, William of Orange, stadholder of the Netherlands, invaded England and put King James II to flight. Three months later, John Locke returned to England after six years of exile in Holland. In April 1689, William and Mary (daughter of James II) were crowned, having accepted the Declaration of Rights. This completed the "Glorious Revolution."

In late 1689, Locke published his *Two Treatises of Government*. As Locke explains in his preface, this work was published to justify the Glorious Revolution:

> Reader, *Thou hast here the Beginning and End of a Discourse concerning Government; what Fate has otherwise disposed of the Papers that should have filled up the middle, and were more than all the rest, 'tis not worth while to tell thee. These, which remain, I hope are sufficient to establish the Throne of our Great Restorer, Our Present King William; to make good his Title, in the Consent of the People....* (John Locke, *Two Treatises of Government*, Peter Laslett, ed., [New York: Mentor Books, 1965], p. 171.)

Many commentators, misled by Locke's preface, have assumed that Locke wrote the *Two Treatises* (or at least the famous *Second Treatise*) *after* William's successful invasion of England. In 1960, Peter Laslett published his definitive edition of John Locke's *Two Treatises of Government* and thereby changed the course of Lockeian scholarship.

According to Laslett, *most* of the *Two Treatises of Government* was written between 1679 and 1681, during a political struggle known as the Exclusion Crisis. This was a Parliamentary effort by Whigs, led by Lord Shaftesbury, to prevent the Catholic Duke of York (later James II and brother of Charles II) from succeeding to the Throne of England.

The *Two Treatises*, Laslett argues, "is an Exclusion Tract, not a Revolution Pamphlet" (p. 75). Thus, "*Two Treatises* in fact turns out to be a demand for a revolution to be brought about, not a rationalization of a revolution in need of defense" (p. 60). Similarly, Maurice Cranston, in *John Locke: A Biography* (London: Longmans, Green, and Co., 1957), draws on Laslett's research and concludes: "The *Two Treatises of Government* was...not something written after the event to 'justify' a revolution, but something written before the event to promote a revolution" (p. 208).

Laslett's redating of the *Two Treatises* (or, more precisely, the *Second Treatise*) led to depicting John Locke as far more radical than his conventional image. And this "radical Locke" thesis gains momentum when we consider this question: Why did Locke, throughout his life, try to hide his authorship of the *Two Treatises*?

When Locke returned to England in February 1689, he was received warmly and was offered a government post. He had backed the right horse. So why did Locke publish the *Two Treatises* anonymously and strive assiduously to conceal his authorship, even from friends? Why not reveal his authorship and bask in accolades from a grateful public?

Why did Locke, throughout his life, try to hide his authorship of the Two Treatises*?*

One traditional explanation is that Locke was a secretive man who eschewed public controversy. This is true, but it raises another question: Why should the *Two Treatises*—which was expressly published "to establish the Throne of our Great Restorer, Our present King William"—excite public controversy at all? If, as some commentators have argued, Locke's theory of revolution was merely a summary of orthodox Whiggism, then it is difficult to understand why Locke tried so hard to remain anonymous.

Peter Laslett suggests a reason for Locke's "extraordinary furtiveness about the writing of *Two Treatises*." Throughout the 1690s, there was a possibility that James II might recapture the throne of England. And if this happened, Locke feared retaliation if his authorship of *Two Treatises* became known.

A better explanation is given by Julian Franklin in *John Locke and the Theory of Sovereignty* (Cambridge: Cambridge University Press, 1978). Locke's theory of revolution, Franklin explains, was unacceptable to establishment Whigs who were seeking to justify William's accession to the throne. According to Locke's theory, when James II tried to subvert the English Constitution, he put himself in a state of war with the English people and dissolved the government. Thereafter, the power to erect a new government devolved to the "people" acting in their capacity as a political society.

Locke's theory of a dissolved government, had it been accepted, would have released the people from their obligation not only to James II, but also to Parliament. Moderate

(continued on page 4)

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Locke (continued from page 3)

Whigs were unwilling to accept the radical implication of this doctrine. They did not agree with Locke that the English government had been "dissolved" and that power thereby reverted to the people. Instead, moderate Whigs advanced the theory that James II had abdicated his throne and left it vacant. Afterwards, the two Houses of Parliament, assembling as a "convention," filled the vacancy.

Thus, Locke's theory of revolution was rejected as too extreme by most Whig apologists of the Glorious Revolution (a judgment repeated later by Edmund Burke and Sir William Blackstone). This, Franklin suggests, is why Locke didn't want to disclose his authorship of the *Two Treatises*.

> Locke's awareness that his thesis was considered dangerous by all, helps to explain not only his decision to conceal his authorship, but his obsessive efforts to make sure that it was not disclosed by friends....[G]iven the radicalism of the *Second Treatise*, as it was generally understood, he had special reason to be fearful. Had his authorship become widely known even after 1689, he might have been exposed to prosecution and, at the very least, would have suffered damage to his reputation (p. 113).

Revolutionary Politics draws on previously untapped resources and presents a John Locke who was hip-deep in the revolutionary politics of his day.

Richard Ashcraft and the Radical Locke

Even with the work of Laslett, Cranston, Franklin, and others, our picture of John Locke as a radical *activist* remained blurred. Fortunately, that picture has been put into focus by Richard Ashcraft in *Revolutionary Politics and Locke's Two Treatises of Government*.

Ashcraft has given us what is perhaps the most important book on John Locke ever published. Massive (600 pages) and richly detailed, *Revolutionary Politics* draws on previously untapped resources and presents a John Locke who was hip-deep in the revolutionary politics of his day—first as a confidant to Lord Shaftesbury and, later, as a fellow conspirator among British dissidents in Holland.

Here I want to examine one of Ashcraft's more interesting and provocative claims: that the *Two Treatises* was more indebted to the philosophy of the Levellers than scholars have previously assumed. As Ashcraft says: "I have throughout this work placed Locke in much closer proximity to the Levellers and to the radical political theory they developed than has previously been supposed." And again: "[T]he relationship of Locke's argument in the *Two Treatises* to the language used by the Levellers merits much more serious consideration than it has heretofore been given by interpreters of Locke's political ideas" (p. 150).

The Levellers were an organized movement of radical individualists who flourished during the 1640s, a time of civil war between King and Parliament. The best-known Levellers included John Lilburne, Richard Overton, and William Walwyn.

Ashcraft concedes that there is no "direct link" between Locke and the Levellers. Indeed, most historians accept the conclusion of Peter Laslett that "as far as we know Locke never read Lilburne or the other Levellers...." (p. 34).

Did Locke own any Leveller pamphlets? Most historians say no, but Ashcraft raises an interesting point. Locke stored over 600 pamphlets in boxes, and only a fraction of these were listed by title in his library catalogue. Leveller pamphlets may have been among the hundreds of unmentioned items.

In addition, during his last two years of exile in Holland, Locke lived in Rotterdam with the Quaker merchant Benjamin Furley. Furley owned an impressive library—over 4,000 volumes, including "a substantial collection of Leveller tracts...to which Locke had constant access" (Ashcraft, p. 165). (Furley, we should also note, had been a close friend of the Commonwealthman Algernon Sidney.)

But even if Locke read the Leveller tracts in Furley's library, this doesn't support Ashcraft's thesis of a Leveller influence on the *Two Treatises*. Locke didn't meet Furley until 1687, six years after the Exclusion Crisis (1679-81) during which most of the *Two Treatises* was supposedly written.

Whether Locke read the Levellers is a matter of conjecture, so Ashcraft doesn't pursue this possibility very far. Instead, he accepts Laslett's judgment that it was "from conversation and casual contact, not from documentary acquaintance, that Locke inherited the fruit of the radical writings of the Civil War."

How, then, does Ashcraft built his case for Locke as a "closet-Leveller" (to overstate the point somewhat)? Basically, Ashcraft employs a sophisticated version of the old adage that if something looks like a duck, walks like a duck, and quacks like a duck, then it's probably a duck. In Ashcraft's words:

> [T]he more weight one places upon the decision of an author to identify himself with a particular political language selected from among a range of available choices, and the more one thinks in terms of the appeal that a specific political vocabulary has for specific social groups, the more plausible it becomes to think of Locke's political theory in terms of this association.

Thus, it is by examining Locke's "political vocabulary" in the *Two Treatises* and the audience to which it was addressed, that Ashcraft builds much of his case for a "radical Locke" with ties to the Levellers. Given the dearth of first-hand information about Locke's political activities, it is understandable why Ashcraft uses this methodology. But it is highly speculative and can generate questionable results.

Such is the case, I believe, with Neal Wood's *The Politics of Locke's Philosophy: A Social Study of An Essay Concern-*

(continued on page 22)

Free Banking (continued from page 1)

Historical episodes of free banking

Despite its radical-sounding character, free banking is not an impractical and untried theoretical ideal. Many countries actually had free-banking systems once. Indeed, free banking and central banking have many basic features in common. In both systems, banks combine small and often erratic acts of saving by individuals into large masses whose overall extent is fairly predictable. Statistically, the larger the number of savers holding a bank's deposits (and notes, if it issues its own notes), the smaller is the chance that many of them will stop saving all at once. This enables banks to lend out most of the savings entrusted to them, keeping on hand a small amount of reserves—lower than 1 percent in some recorded cases—that is still enough to meet demands for redemption from depositors who no longer wish to save. When bank depositors will support more loans to borrowers, banks can lower their ratio of reserves to deposits. When depositors wish to reduce the amount of saving, banks must curtail loans, which they usually accomplish by raising interest rates charged to borrowers. That boosts the "reserve ratio," ensuring that banks will continue to meet redemption demands and avoid bankruptcy. Free banking differs from central banking in the way banks hold reserves. In a free-banking system each bank holds it own reserves, which in the past were most frequently gold. In a central-banking system, on the other hand, commercial banks such as Chase Manhattan or Wells Fargo hold notes or deposits issued by the state-chartered central bank, which holds the gold reserves for the entire system (if the country is on a gold standard) or has the sole right to create new reserves (if the country is on a fiat-money standard). Advocates of free banking believe that compulsory reserve centralization reduces healthy competitive checks against inflation; advocates of central banking believe it increases government's power to exert benevolent control over the economy.

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It is only now becoming apparent just how widespread free banking was and how well it performed. Countries as diverse as Sweden, China, Canada, Australia, and South Africa all had smoothly functioning free-banking systems. When central banks were later established, free banking was consigned to the dustbin of antiquated ideas. Arguments from economic theory were later invented to justify arrangements that had sprung into existence purely out of political expediency. Once central banking became part of orthodox economic theory, economic historians interpreted banking history in light of that perspective. The facts of history are rarely so plain as to fall into place without extensive underlying assumptions on the historian's part; hence it is understandable that free-banking episodes came to be viewed as chaotic early stages of a natural evolution towards central banking.

So little research has been done on the history of free banking that the best general source is still Charles A. Conant's *History of Modern Banks of Issue* (6th ed., New York: Augustus M. Kelley, 1969 [reprint of 1927]). Conant is not explicit about the differences between the ways free banking and central banking operate, so it is frequently necessary to read between the lines to discover the cases of free banking.

Concerning particular countries, the greatest amount of work so far has been on the Scottish free-banking episode, which was the oldest and longest lived of any. Interestingly, Scottish banking was at first a monopoly; competition was a later development. The Bank of Scotland, founded in 1695, was granted a twenty-one year monopoly of note issue in Scotland by the British Parliament. At the end of that period Parliament allowed the monopoly to expire because it suspected the bank's directors of treasonous political leanings. The bank did not protest much, apparently thinking no other firm would enter the business. When the rival Royal Bank of Scotland formed in 1727 the old bank tried first to block its Parliamentary charter, then to drive it out of business, and finally to merge with it, but was unsuccessful at every turn. Other banks soon entered the field. Most operated without charters, meaning that stockholders had unlimited liability for the debts of their bank should it fail. The system was stable enough that unlimited liability (which at that time was the rule in most other industries as well) did not greatly discourage stock ownership. By 1750 there were fourteen banks, by 1800 about twenty.

While Scotland was developing the first free-banking system, England was developing the paradigmatic central-banking system. The Bank of England, founded shortly before the Bank of Scotland, was given certain monopoly privileges in return for a loan to the British government. In later years the privileges were enlarged as the bank made further loans. Within a 65-mile radius of London the Bank of England was the only bank allowed to issue notes, and it was the only note-issuing bank in all of England and Wales allowed to have more than six partners. A banking panic in 1825, which caused many of the small note-issuing banks to fail, suggested the wisdom of abolishing the six-partner rule to promote the formation of larger, stronger banks.

Arguments from economic theory were later invented to justify arrangements that had sprung into existence purely out of political expediency.

Vigorous debate sprang up about whether the panic had been caused by the Bank of England, the other note-issuing banks (including those of Scotland), or both. This contro-

(continued on page 6)

Free Banking (continued from page 5)

versy, which lasted for twenty years, raised questions that monetary theorists have been wrestling with ever since. In retrospect, the participants in the debate can be divided into three groups, though at the time the lines between them were not always so clear. The Free-Banking School was composed of Scottish bankers, who were passionately attached to their system, and English bankers and economists opposed to the Bank of England's monopoly privileges. It laid blame for the 1825 panic and others in later decades on the Bank of England alone. Its main opponent was the Currency School, composed of Bank of England officials, along with some prominent economists and politicians. The Currency School blamed all banks for the panics, claiming that unregulated note issue was intrinsically disruptive. It sought regulated note issue, which it believed was best achieved by centralizing all British note issue with the Bank of England. The final group, the Banking School, was made up mainly of economists. It maintained implausibly that no bank was to blame for the panics, and did not much care whether note issue was centralized or not. The chief accounts of the British monetary controversy are Lloyd Mints, *A History of Banking Theory* (Chicago: University of Chicago Press, 1945); Frank W. Fetter, *Development of the British Monetary Orthodoxy, 1797-1875* (Cambridge, Mass.: Harvard University Press, 1965); Vera C. Smith, *The Rationale of Central Banking* (London: P.S. King and Son, 1936); and Lawrence H. White, *Free Banking in Britain: Theory, Experience, and Debate, 1800-1845* (New York: Cambridge University Press, 1984).

As evidence for its case, the Free-Banking School pointed to the excellent performance of Scotland's system. The rate of bank failures was about one-quarter that of England. Losses to note holders and depositors were £32,000 for the entire free-banking era (1727-1844), compared to twice that much or more for banks in the London area alone during single years of the same period. The number of bank branches per capita was nearly 50-percent higher in Scotland than in England. Only Scottish banks paid interest on small deposits. Their notes were so well-trusted that they were preferred to English bank notes in the border regions of England (White, pp. 26, 34, 41, 43, 48).

Though the Free-Banking School had history on it's side, the Currency School had an even more powerful ally: the government of Sir Robert Peel, which wrote Currency School doctrine into law with the Bank Acts of 1844 and 1845. The acts extended the Bank of England's note-issue monopoly to the whole of Britain and set a ceiling to its note issue. The ceiling had to be suspended during later panics to avoid a breakdown of the banking system. But though it was recognized by the 1870s that the Currency School's policy prescription had aggravated rather than relieved the panics, there was no thought of a return to free banking. Walter Bagehot, the father of central-banking monetary policy, thought free banking was the more desirable system, but believed that it was politically impossible to reinstate it, and devised his policy recommendations as a second-best solution. In *Lombard Street: A Description of the Money Market* [1873; New York: Arno Press, 1979] he emphasized that

> the natural system of banking is that of many banks keeping their own cash reserve, with the penalty of failure before them if they neglect it. I have shown that our system is that of a single bank keeping the whole reserve under no effectual penalty of failure. And yet I propose to retain that system, and only attempt to mend and palliate it.
>
> I can only reply that I propose to retain this system because I am quite sure that it is of no manner of use proposing to alter it...You might as well, or better, try to alter the English monarchy and substitute a republic, as to alter the present constitution of the English money market, founded on the Bank of England.... (pp. 328-329)

Walter Bagehot, the father of central-banking monetary policy, thought free banking was the more desirable system, but believed that it was politically impossible to reinstate it, and devised his policy recommendations as a second-best solution.

Monetary theorists after Bagehot let themselves be guided by him in their recommendations for central-bank policy, yet ignored the implication of this statement that countries without central banks would be better off without them.

The independence from English law that the Scottish banking system enjoyed for a time also characterized the British colonies. Independent-minded colonies granted their own bank charters: Canada, Australia, South Africa, and New Zealand all had free-banking systems dominated by local banks. Other colonies (except India, where there was government monopoly note issue) had free-banking systems based on British "overseas banks," which were set up with British capital and had headquarters in London, but whose branches were all abroad. The record of these systems was generally quite good. Many of the clerks and managers of banks in the colonies came from Scotland.

Eventually the desire of governments to finance their expenditures by printing money at will led to state control of the money supply, and ultimately to the setting up of central banks. Canada and New Zealand, the last important holdouts among the Commonwealth nations, adopted central banking-like measures when they entered World War I, though they did not formally establish central banks until the mid-1930s. The conversion of these systems from free banking to central banking did not occasion great debate such as had occurred in Britain; in fact, no important discussions of monetary theory took place in any country, as far as we are presently aware. Central banking had by this time become the conventional wisdom.

Free banking was longest-lived, most unfettered, and most advanced in parts of the British Empire, but briefer instances occurred in many other countries. Economists now researching these cases include Lars Jonung (Sweden), George Selgin (southern China), Philippe Nataf (France), Donald Wells (Canada), and Karen Palasek (northeastern U.S.). There is room for much more work; investigations of episodes in the Far East and Latin America would be particularly welcome. The logical starting point for such research is, of course, histories of banking, though they usually devote little attention to free banking. Numismatic catalogs (for instance, Albert Pick's *Standard Catalog of World Paper Money* [Iola, Wis.: Krause Publications, 1986]) and numismatic journals often contain information on note-issuing banks not found elsewhere.

Free banking in the United States

There is an impression among economic historians that the United States tried free banking and that it failed. This is doubly wrong. The United States never experienced nationwide free banking. However, states experimented with a variety of banking arrangements, and generally the less restrictive ones worked best.

From the start, American banks were hedged in with regulations. The First and Second Banks of the United States were given charters assuring that the federal government would charter no other nationwide bank. After the Jacksonians took advantage of antimonopoly sentiment to dissolve the Second Bank, the American system fragmented along state lines. Some states outlawed banking altogether; others compelled large payments in exchange for charters. Restrictions were least onerous and bank failures fewest in New England and certain southern states, including Louisiana and Virginia. (For a skeptical view of New England free banking see Donald J. Mullineaux, "Competitive Monies and the Suffolk Bank System: A Contractual Perspective," *Southern Economic Journal*, April 1987.)

There is an impression among economic historians that the United States tried free banking and that it failed. This is doubly wrong.

New York, Michigan, and many other states experimented with bond-deposit banking, in which the amount of notes banks were allowed to issue depended on how many government bonds they held. Unfortunately, this restrictive arrangement became known as "free banking" because it was freer than the system of special privilege that had preceded it in New York, where it had often been necessary for prospective bankers to bribe legislatures to pass bank charters. But though charters became much easier to get, the bond-deposit system imposed regulations that had not existed under the old system. Besides the limitation they faced on note issues, bond-deposit banks were not allowed to establish branches. That deprived them of opportunities to diversify their loans and hence reduce the risk of suffering large-scale defaults. Western bond-deposit banks had a bad reputation among writers of the time, whence sprang the lore of "wildcat" banking. However, recent examination of bond-deposit banks has revealed that this is largely undeserved. (See *The Free Banking Era: A Re-Examination* by Hugh Rockoff [New York: Arno Press, 1975]; the following articles by Arthur J. Rolnick and Warren E. Weber: "New Evidence on the Free Banking Era," *American Economic Review*, December 1983, "The Causes of Free Bank Failures: A Detailed Examination," *Journal of Monetary Economics*, November 1984, "Inherent Instability in Banking: The Free Banking Experience," *Cato Journal*, Winter 1986, and "Explaining the Demand for Free Bank Notes," *Journal of Monetary Economics*, January 1988; and "On the Economics of Private Money" by Robert G. King, *Journal of Monetary Economics*, May 1983.)

Canada's free-banking system did not experience the note shortages that plagued the United States.

Bond-deposit banking provided government with a ready market for bonds, and worked well enough compared to other, even-more-regulated systems that the Union government adopted it on a national scale during the Civil War. As the nineteenth century drew to a close it became apparent that bond-deposit limits on note issue were causing note shortages and financial instability. When people realized that bank notes were becoming scarce they hoarded them, causing notes to disappear from circulation entirely. Trade would have ground to a halt had not private-bank clearing-house associations stepped in with makeshift temporary currency. The note-issue shortages of 1893 and 1907 were particularly severe and led to pressure to reform the banking system. (The classic work on the note-issue shortages is Oliver M. W. Sprague's *History of Crises Under the National Bank Banking System* [1910; Fairfield, N.J.: Augustus M. Kelley, 1977]; on clearinghouses see Richard Timberlake, "The Central Banking Role of Clearing House Associations," *Journal of Money, Credit and Banking*, May 1984, and Gary Gorton, "Clearinghouses and the Origin of Central Banking in the United States," *Journal of Economic History, June 1985*).

Canada's free-banking system did not experience the note shortages that plagued the United States. However, though some writers advocated deregulating the American system along Canadian lines, central banking carried the day because it had far more support in important banking circles. Commercial banks were placed under the Federal Reserve System, which became the sole note issuer beginning in 1914. The Fed eliminated note-shortage problems, but also caused the previously nonexistent problem of inflation. Furthermore, interstate branch banking was still prohibited; the resulting network of small, weak banks was unable to

(continued on page 8)

Free Banking (continued from page 7)

withstand the stress of the Great Depression. In contrast, no banks failed in Canada, which enjoyed nationwide branch banking. Eugene Nelson White's *Regulation and Reform of the American Banking System, 1900-1929* (Princeton: Princeton University Press, 1983) and "A Reinterpretation of the Banking Crisis of 1930," *Journal of Economic History*, March 1984, analyze the American system's defects.

American discussions of free banking in the mid-1800s were far inferior to those in Britain, France, and Germany. Towards the close of the century, though, economists of the Sound Currency Committee of the New York Reform Club produced some valuable writings in *Sound Currency* magazine (published from 1891 to 1905 and available in many old, large university libraries). Horace White, Charles Conant, and L. Carroll Root were the outstanding members of the group. Like other countries' nineteenth-century theoretical debates, those of the United States are today mainly of interest for their place in the history of economic thought. With the revival of interest in free banking during the 1980s their most important insights have been reformulated and fused with the great advances in other fields of economic theory that have taken place in the meantime.

Free banking ended with World War I. Government demands for war finance through other means besides direct taxation led to the establishment of central banks in nations that did not already have them.

Years of Dormancy

Free banking ended with World War I. Government demands for war finance through other means besides direct taxation led to the establishment of central banks in nations that did not already have them. After the war the new nations that came into existence also founded central banks, encouraged by the League of Nations. Free banking became simply unthinkable as economists came to believe that "money will not manage itself," ignoring that it had done just that for two centuries all over the world.

The sole work of importance examining the merits of free banking that appeared from the turn of the century until the 1970s was *The Rationale of Central Banking* by Vera C. Smith (London: P.S. King & Son, 1936). Smith was a student of Friedrich A. Hayek, and this wonderful book was her dissertation. (She later married another of Hayek's students, Friedrich Lutz, who was likewise a keen monetary theorist.) Sadly, it has never been reprinted in its entirety and is very hard to find.

Smith examined the theoretical debates and the history of free banking in Britain, France, Germany, and the United States. She showed that "in most countries a combination of political motives and historical accident...played a much more important part than any well-considered economic principle" in leading to central banking (p. 2). But her greatest achievement was to analyze the difference in credit expansion under the two systems. The experience of World War I and the postwar period had made it obvious that central banking could lead to a form of legalized national bankruptcy because central banks were willing to use their powers of inflation to finance government deficits.

In common with other economists influenced by Wicksell's natural-rate hypothesis, Smith devoted her attention exclusively to inflation instead of seeing it as just one of several monetary disorders possible under central banking.

Besides such "public choice" arguments, Smith also brought to bear Knut Wicksell's theory of the natural rate of interest. Around the turn of the century Wicksell had argued that there was a "natural" rate of interest determined by the extent of consumers' preferences for present goods over future goods. Attempts to make the market rate of interest deviate from the natural rate could not last because profit and loss signals would bring the two rates back into line. The idea of the natural rate caught on quickly and by the 1920s dominated discussion of monetary theory. Hayek claimed that inflation makes the market rate fall below the natural rate, encouraging investment in projects that have to be liquidated because they are unprofitable when the market rate rises back to the "natural" level. That, he argued, is what causes business cycles. (See F. A. Hayek, *Monetary Theory and the Trade Cycles* [1937; Clifton N.J.: Augustus M. Kelley, 1975].) Smith used Hayek's theory in her discussion of the effects of reserve centralization. She pointed out that forced centralization makes the link between reserves and liabilities looser than it is under free banking, affording a central bank much greater leeway to lower bank interest rates below the "natural" rate determined by people's willingness to save. Hence central banks can cause, or at least aggravate, business cycles.

Smith's book received little attention because it appeared at a time when laissez faire was in discredit. Furthermore, though she dwelt on central banking's inflationary potential, she was silent about its equally harmful deflationary potential. During the Great Depression, inflation hardly seemed a pressing problem: monetary expansion was the order of the day, and it seemed that the concern with "sound money" that was part of the free-banking position would cause contraction. In common with other economists influenced by Wicksell's natural-rate hypothesis, she devoted her attention exclusively to inflation instead of seeing it as just one of several monetary disorders possible under central banking.

Mention should also be made of Ludwig von Mises's treatment of free banking in *Human Action* (3rd rev. ed., Chicago: Henry Regnery, 1966; the first edition appeared in 1949). Mises touched on the subject only briefly (pp. 444-448), and his position was ambiguous. Though he advocated open entry into the banking business and unrestricted right of note issue, he believed that all banks except those that have notes backed 100 percent by reserves (he had in mind gold or silver) would be forced out of business by demands from the note-holding public to redeem notes. There is, however, no historical evidence to support Mises's contention; the free-banking systems mentioned above had reserve ratios as low as a few percent of total liabilities, yet they met their legal obligation to redeem deposits and bank notes on demand. If fractional-reserve banking were so precarious, banks would not be able to offer interest-bearing demand deposits because deposits operate on the same principle as competitive note issue formerly did: banks can generally count on their customers as a whole to leave a large and fairly stable amount on deposit, enabling banks to re-lend it to borrowers and keep only a small proportion of reserves on hand to meet demands for withdrawal. Mises's student Murray Rothbard has added to the economic argument for 100-percent reserve banking a moral argument, which claims that keeping only fractional reserves is fraudulent. (See "The Case for a 100 Percent Gold Dollar" in Leland B. Yeager, ed., *In Search of a Monetary Constitution* [Cambridge, Mass.: Harvard University Press, 1962] and "The Myth of Free Banking in Scotland" in the *Review of Austrian Economics*, [2] [Lexington, Mass.: Lexington Books, 1988]).

Present-day free banking theory

The lonely handful of economists in favor of free banking failed to offer a convincing analysis of the Great Depression that challenged the prevailing consensus for central banking. Following World War II the Bretton Woods international monetary system worked well enough for some years that considering an alternative did not seem worthwhile. What happened to shatter the consensus can be stated in one word: inflation. Keynesian neoclassical economics at the time claimed that simultaneous inflation and high unemployment were impossible. Each was supposed to be the cure for the other: if unemployment became unacceptably great, all the central bank had to do was inflate a bit to get the economy rolling again; conversely, when inflation became too high, all it had to do was reduce the growth of the money supply and tolerate greater unemployment for awhile. Beginning in the late 1960s inflation *and* unemployment increased in all Western nations, and mainstream theory was unable to explain why. Rival theories, notably monetarism, began to attract increasing attention.

Credit for reopening debate on whether central banking is necessary belongs to Benjamin Klein and Friedrich A. Hayek. Klein's article "The Competitive Supply of Money" (*Journal of Money Credit and Banking*, November 1974) developed an analysis of money as a good having a brand-name reputation. Just as people buy a particular brand of toothpaste because the manufacturer has earned their confidence, so they would use the currency issued by the bank that achieved a reputation they trusted. Klein concluded that arguments asserting that government can produce confidence less expensively than private issuers, or that the issue of money is a natural monopoly, do not justify prohibiting private currency issue. However, he left open the possibility that government control of currency might be desirable from the standpoint of macroeconomic stability.

Hayek had touched on the possibility of competitive currency issue in his 1948 book *Individualism and Economic Order* (Chicago: University of Chicago Press). He enlarged on the theme in a 1976 pamphlet, *Choice in Currency: A Way to Stop Inflation*, which was later expanded and retitled *Denationalisation of Money—The Argument Refined* (London: Institute of Economic Affairs, 1978). Whereas Klein wrote in a specialist publication, Hayek aimed at a wide audience, which his status as a recent Nobel Laureate helped him reach. His proposal, which caused a great stir, was that government monopoly over the issue of money should be abolished. He envisioned that private issuers would then enter the field in competition with one another and that the profit motive would lead them to offer stability of value as an important characteristic of their product. Government would then have to stop inflating or see people

Klein concluded that arguments asserting that government can produce confidence less expensively than private issuers, or that the issue of money is a natural monopoly, do not justify prohibiting private currency issue.

desert to private currencies. (Ultimately Hayek wished to eliminate government currency altogether because the temptation to make it fiat money is always present.) He also claimed that competitive currency issue would also avoid deflation and eliminate monetarily caused business cycles. And, reiterating a point he has made throughout his career, he stressed the nature of money as a social institution that evolves in ways that cannot be satisfactorily predicted or controlled by a central authority. Money is fundamentally a creation of markets and is best handled by markets.

Hayek envisioned a system of competing fiat currencies kept constant in relation to the value of "baskets" of wholesale commodity prices. Among the problems with such a system is that it has never been tried. Lawrence H. White put forth an alternative, more historically based vision of how a free banking system might work in *Free Banking in Britain: Theory, Experience, and Debate, 1800-1845* (Cambridge: Cambridge University Press, 1984). White explained what made the Scottish system work so well; particularly important was his description of how the clearing system for notes and checks kept bank liabilities close to the amount the public desired to hold. Central banking, he contended, attenuates the discipline of the clearing system because a monopoly bank holding the reserves of a whole system suffers losses (or gains) only after inflating (or deflating) much longer than free banks holding reserves independently can afford to do.

White's book broke new ground on three fronts. It was the first to look at the historical record of a truly free-banking system. It re-examined the British monetary debates at far greater length than Vera Smith had, summarized them, and extracted most of what they contain that is relevant to current monetary theory. Finally, it proposed that free banking would not necessarily mean trying an untested system, as in

(continued on page 10)

Free Banking (continued from page 9)

Hayek's proposal, but that it could be a return (with minor modifications) to a system that had already proved itself practical, sound, and efficient. White's work suggested new paths of exploration in many directions, some of which are treated in a forthcoming collection of his essays, *Competition and Currency* (New York: New York University Press).

At this point, an astounding conversion took place. Milton Friedman, who despite his strongly laissez-faire views on other topics had believed in the desirability of a central bank (though one whose actions were bound tightly by fixed rules), came out for free banking. Apparently, the work of Vera Smith and White, which he cites and discusses, had much to do with his change of mind. Friedman now advocates a radical program: "abolish the money-creating powers of the Federal Reserve, freeze the quality of high-powered money, and deregulate the financial system" ("Monetary Policy: Tactics versus Strategy," in James A. Dorn and Anna J. Schwartz, eds., *The Search for Stable Money* [Chicago: University of Chicago Press, 1987], p. 381; see also "Has Government Any Role in Money?" *Journal of Monetary Economics*, January 1986 [cowritten with Anna Schwartz]; and "The Resource Cost of Irredeemable Paper Money," *Journal of Political Economy*, June 1986). Friedman is causing other monetarists to rethink their position and, I believe, will eventually lead many of that school to become advocates of free banking.

White's success in bringing the insights of the long-overlooked British monetary writers to bear on current issues has prepared the way for re-exploration of another hitherto neglected body of monetary theory. White's student George A. Selgin, now a professor at the University of Hong Kong, takes up the task in *The Theory of Free Banking: Money Supply Under Competitive Note Issue* (Totowa, N.J.: Rowman & Littlefield, 1988). Selgin revives several key ideas developed by writers of the 1920s and early 1930s, such as Hayek, Mises, Dennis Robertson, and John G. Koopmans, who used as their common base Knut Wicksell's theory of the natural rate of interest. Selgin extends these ideas to free banking and combines them powerfully and coherently. In many respects, mainstream monetary theory has retrogressed since Keynesian economics overwhelmed the "Wicksellian tradition," so Selgin's work is as sophisticated as any appearing today.

At the heart of his book is a fresh understanding of the link between banks' reserves and their liabilities. Selgin shows first that the demand for money is a demand to hold bank liabilities (deposits and, in a free-banking system, issuing banks' notes), so that insofar as banks act "properly" they are simply intermediaries of credit between lenders and borrowers. Next, he upsets a long-held belief that bank-credit intermediation is linked in a mechanical way to reserves. Prevailing theory claims that if the reserve ratio is, say, five percent of liabilities, then the only way for bank liabilities to increase in response to greater public demand to hold them is for new supplies of reserves to come on-stream, and that the same five percent ratio somehow prevents bank liabilities from falling below twenty times reserves. In reality, under a system without statutory reserve requirements, the ratio is highly variable and adjusts in harmony with the demand to hold money. So if reserves are constant the reserve tail does not wag the liability dog after all.

Applying these findings to an analysis of the clearing system, Selgin answers a question that has long nagged free-banking theorists: can free banks acting in unison imitate a central banking system and inflate? He shows that they cannot because all would suffer a greater chance of losing reserves and going bankrupt, even if the system as a whole does not lose reserves. Under central banking, however, a single entity controls all the ultimate reserves of the system, so this check operates at a level further removed from consumer deposits. Diffuse ownership of reserves under free banking allows the clearing system to generate price signals (namely, reserve losses or gains) that inform banks whether the public's desire to hold their liabilities is increasing or decreasing. Central banks, in common with other kinds of central planning, lack such information and hence are prone to make big mistakes instead of just the little ones that entrepreneurs in a free market often do. (On a related point, see Selgin's article "Accommodating Change in the Relative Demand for Money: Free Banking versus Central Banking," *Cato Journal*, Winter 1988.) Consequently, central banking works about as well as Soviet agricultural planning. This thesis is an application to banking of the Austrian School argument about the difficulty inherent in socialist economic calculation. Interestingly, Mises and Hayek first advanced the socialist calculation argument at the same time that the Wicksellian tradition in monetary theory flourished, but never connected the two explicitly. The best defense of central banking against such attacks as those made by White and Selgin is Charles A. E. Goodhart's *Central Banking: A Natural Development?* [London: London School of Economics, 1985].

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David Glasner takes a more practice-oriented approach to free banking in his forthcoming work *Tomorrow's Money* (New York: Cambridge University Press), which concentrates on the influence that economic theory and the day-to-day workings of various monetary systems have had on each other. He reinterprets monetary theory since Adam Smith in terms of how it has handled the question of competition versus monopoly in money. Since to a great extent our interpretation of past writers guides our present thought, this aspect of Glasner's book is as much a provocation to central-banking theory as his other major theme, which is that recent developments in banking are eroding central-bank power. He points to the rise of the Eurodollar market, which now handles over $1 trillion of loans per year entirely outside of the United States and beyond the reach of the Federal Reserve System. Similar markets have come into being for other leading currencies. Glasner also discusses advances in technology that have drawn financial markets closer together, increasing the rapidity with which capital flees when government actions are perceived as harmful.

Unquestionably, new technology is easing the tight grip central banks once had over the supply of money, making it harder for them to serve as the instruments of government finance they were intended to be. But technology will not bring about unfettered competition by itself; it will only increase choice among more or less inferior national currencies. This is apparent in foreign-exchange markets. Attempts by central banks to stabilize rates there have been swamped by the volume of trading, so that in a limited sense the free market prevails; but it is not clear how beneficial the resulting volatility has been for businesses, which cannot count on rates being the same next week as they are this week. Glasner has made a start at understanding the changes now happening in the international monetary system, but the field is immense and rapidly evolving. So it will be a continuing source of challenges to our understanding.

Another forthcoming book, Kevin Dowd's *The State and the Monetary System* (Oxford: Philip Allan), is a sort of summary of the case for free banking. It is brief and quite well-written, making it an ideal introduction to the field. (In this respect, it supplants Pamela J. Brown's article "Constitution or Competition? Alternative Views on Monetary Reform," *Literature of Liberty*, Autumn 1982, which remains valuable for its bibliography.) Dowd, who teaches at the University of Sheffield (England), develops good original arguments concerning bank runs and how free banks could handle them. He suggests that it is not true that banking systems need a "lender of last resort" to bail them out in times of trouble. Since the need for a lender of last resort has been accepted by orthodox banking theory for over a century, Dowd's thesis will surely provoke heated replies, perhaps along lines already laid out by Richard Cothren, who has claimed that deregulated banks will tend to hold inadequate reserves ("Asymmetric Information and Optimal Bank Reserves," *Journal of Money, Credit and Banking*, Feb. 1987. Dowd anticipates and answers some objections to his ideas in his article "Automatic Stabilizing Mechanism under Free Banking," *Cato Journal*, Winter 1988).

Almost every one of the writers discussed here has advanced plan for monetary reform. All favor allowing private currency issue; they disagree about what would probably follow, though they are unanimous that market forces should be the judge. Hayek, Glasner, and Dowd envision a commodity-basket standard; White, a gold standard; Friedman and Selgin, a frozen fiat-money-base standard. Circumstances of time and place may result in all three, or other standards that nobody has yet thought of. A comparative analysis of the standards and a detailed explanation of how to accomplish the transition from central banking to each is urgently needed. To have a realistic flavor it should draw on past experience of monetary reform. That also would help avoid the errors that have often been committed during previous reforms. If the moment for monetary reform comes, it will be brief, and unless free-banking theorists have well conceived proposals they can unite behind, it will pass them by.

Another matter that requires hard thinking is the contention raised by "legal-restrictions theory." This view, which springs from the "rational expectations" school of economic thought, claims that money as we know it is so much a creature of regulation that removing restrictions on note issue would result in the separation of money's functions as a means of payment from its functions as a unit of account. Bank notes would then become in effect low-denomination, interest-bearing bonds. The free-banking writers mentioned do not agree with the legal-restrictions theory, but many other economists have been persuaded by it, so the theory will be important in future thinking about monetary deregulation. The best summary of the theory is an article by one of its originators, Neil Wallace, "A Legal Restrictions Theory of the Demand for 'Money' and the Role of Monetary Policy," *Federal Reserve Bank of Minneapolis Quarterly Review*, Winter 1983. Two pieces that discuss the connection between the theory and monetary deregulation are Y.C. Jao, "A Libertarian Approach to Monetary Theory and Policy," *Hong Kong Economic Papers*, 1984, and Tyler Cowen and Randall Kroszner, "The Development of the New Monetary Economics," *Journal of Political Economy*, June 1987.

Free-banking theory in its modern incarnation is a young and wide-open field of research. Almost everything in it remains to be done, or at least to be done better. A short list of some of the leading questions in the field illustrates the wide range of topics to be addressed: Should a free-banking system's reserves grow in response to changes in demand for money arising from population growth? How can the Federal Reserve's clearing functions be privatized? What is the history of plural note-issue systems in (to list a few little-explored cases) Italy, Spain, Switzerland, Australia, New Zealand, Argentina, Bolivia, Honduras, Jamaica, South Africa, or Korea? How free were such systems over the course of their existence? Is it possible to develop institutional structures that will give a free-banking system the best of the monetary "flexibility" claimed as an advantage for central banks in times of crises without their capricious potential for inflation and deflation? Did the original advocates of central banking in various countries have any inkling of its dangers?

New technology is easing the tight grip central banks once had over the supply of money.

As the idea of free banking continues to gather momentum, it will become one of the three or four most widely debated topics in economics. Scholars who begin their research on it now can benefit by being acknowledged pioneers of this promising body of thought, which holds great potential for the advancement of liberty.

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Crosscurrents

Bibliographical Guide Available

The Institute for Humane Studies has produced a useful annotated bibliography of classical liberalism for students and scholars. *A Student's Guide to Classical Liberal Scholarship* begins with a brief introduction to the tradition of classical liberal scholarship and includes a description of the Institute's various seminars, fellowships, and other academic programs and a guide to resource centers throughout the world. These are followed by sections devoted to particular subjects. Each section lists a number of books and journal articles (including full publication information) with short descriptions of each work and how it might be used in a term paper, research program, or other academic effort. The major sections of the bibliography are: The Heritage of Classical Liberalism, History, Economics, Philosophy and Social Theory, and Property Rights. These broad topics are followed by selected issues: Environment; Urban Issues; Race and Ethnic Conflict; International Trade and Relations; Poverty and Self-Help; Economic Development; Social Analysis; Cartels: Business and Labor; Depressions and Economic Cycles; The Industrial Revolution; Feminism; Public Goods; Privatization; Law and the Free Society; Education; Health, Safety, and Regulation; Personal Liberties; Freedom of Expression; Socialism and State Economic Planning; and Liberty and Language.

The booklet, assembled by Tom G. Palmer, editor of *Humane Studies Review*, is intended to introduce students to the wide range of classical liberal scholarship. It is organized so that students can use the books and articles in their own work for school; using the insights and information contained in these works can make the difference between an "A" paper and a "B" paper. In addition, they provide opportunities to combine school work with attaining a richer understanding of social, economic, and political processes. Friends of IHS are encouraged to get copies of the guide for themselves and to give copies to students who have some interest in classical liberalism.

Readers of *Humane Studies Review* who want to receive copies should write to The Editor, *Humane Studies Review*, Institute for Humane Studies, George Mason University, 4400 University Drive, Fairfax, VA 22030. Individual copies are free; requests for additional copies will be considered when accompanied by letters explaining how they will be used.◆

New Work on the State

A new book offering a predatory theory of state power is now available. Margaret Levi's *Of Rule and Revenue* (Berkeley: University of California Press, 1988) is an important addition to a growing literature on the relationship between state power and the extraction of wealth from the producers in society. (See the related discussion in Jack A. Goldstone's essay "Revolutions," *Humane Studies Review* [5] Spring 1988.) Levi's work, a major expansion of the thesis offered in her essay "The Predatory Theory of Rule" (*Politics and Society* [10] 1981), is heavily influenced by "rational choice" theory and also draws on public-choice economics, comparative politics, and case studies.

Levi combines both theoretical and historical argument in support of her case that rulers—including the executives of modern democratic states—"are predatory in the sense that they are revenue maximizers." As Levi argues, "The history of state revenue production is the history of the evolution of the state." Her work could be profitably read along with Geoffrey Parker's essay on the development of modern financial systems ("The Emergence of Modern Finance in Europe, 1500-1730" in Carlo Cipolla, ed., *The Fontana Economic History of Europe*, Vol. 2 [New York: Barnes and Noble, 1977]) and Edward Miller's essay "War, Taxation and the English Economy in the Late Thirteenth and Early Fourteenth Centuries" in J. M. Winter, ed., *War and Economic Development* (Cambridge: Cambridge University Press, 1975). Students of social analysis will also find provocative Charles Tilly's essay "War Making and State Making as Organized Crime" (in Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* [Cambridge: Cambridge University Press, 1985]), in which Tilly draws on and applies the model set forth by the economic historian Frederic C. Lane. (See Lane's "Economic Consequences of Organized Violence," *Journal of Economic History* [18] 1958, and "The Economic Meaning of War and Protection," in *Venice and History: The Collected Papers of Frederic C. Lane* [Baltimore: Johns Hopkins University Press, 1966].)

Levi provides a useful framework for interpreting such historical work. At the same time, her use of the theories of rational choice may sometimes be questionable, especially regarding the theory of exploitation. The careful reader, however, will surely benefit from a close consideration of *Of Rule and Revenue*.

Classical liberal writers have pioneered the theory of predatory state behavior. They include Jeffersonian Republican theorists such as John Taylor of Caroline; the French *économistes* Charles Comte, Charles Dunoyer, and Augustin Thierry; the Italian fiscal theorists such as Vilfredo Pareto and Giovanni Montemartini; sociologists such as Franz Oppenheimer and Alexander Rüstow; and modern public-choice economists such as Gordon Tullock, James Buchanan, Walter Williams, and Jennifer Roback. In general, these writers have highlighted the ability of the state—through its monopoly or near monopoly of organized violence—to impose diffuse costs on large numbers of people and concentrate the resulting benefits on smaller numbers of people.

Many of the insights of these liberal theorists of social conflict and predatory rule are readily available to contemporary students of history and political economy. For the Jeffersonian Republicans, students should consult Charles A. Beard's *Economic Origins of Jeffersonian Democracy* (1915; New York: Macmillan, 1949), especially chapter twelve on John Taylor of Caroline. Taylor's major work, *An Inquiry into the Principles and Policy of the Government of the United States* (1814) presents his analysis of the political and social forces of the modern world, including the emerging "aristocracy of paper" built on government debt that was replacing the older feudal aristocracy; Taylor's work is widely available in libraries.

The work of the French liberal theorists is less widely available in English. Augustin Thierry's *History of the Conquest of England by the Normans* (1825; New York: E.P. Dutton, 1927) offers his history of the formation of European states and their foundation on conquest and violence. An IHS working paper by Tom G. Palmer, "Classical Liberalism, Marxism, and the Conflict of Classes" (IHS Working Paper 88/1), explores the important work of the French liberals and its misappropriation and distortion by Marx. (Copies available on request; write to The Editor, *Humane Studies Review*, care of the Institute for Humane Studies.)

The Italian fiscal theorists added greatly to our understanding of such processes as "fiscal illusion" and other means of extracting revenue out of taxpayers. The best introduction to these thinkers is James M. Buchanan's essay, "'*La Scienza della Finanze*:' The Italian Tradition in Fiscal Theory," (in his *Fiscal Theory and Political Economy: Selected Essays* [Chapel Hill: University of North Carolina Press, 1960]). An excellent statement of this approach, offering a theory of political entrepreneurship, is Giovanni Montemartini's essay "The Fundamental Principles of a Pure Theory of Public Finance" (in Richard A. Musgrave and Alan T. Peacock, eds., *Classics in the Theory of Public Finance* [New York: St. Martin's Press, 1967]). The Italian economist Vilfredo Pareto's writings on "spoliation" are contained in S. E. Finer, ed., *Vilfredo Pareto: Sociological Writings* (Totowa, N.J.: Rowman and Littlefield, 1976), esp. pp. 114-120, 137-142, 162-164, 276-278, 315, and 317-318.

German sociologists such as Franz Oppenheimer (*The State* [1914; New York: Free Life Editions, 1975]) and Alexander Rüstow (*Freedom and Domination: A Historical Critique of Culture* [Princeton: Princeton University Press, 1980]) have explored the history of the state and its function as an instrument of domination and exploitation; Oppenheimer distinguished the "political" and the "economic" means of attaining wealth, while Rüstow offered a grand historical view of the development of state power. (Interestingly, the American writer Albert Jay Nock, in his *Our Enemy, the State* [1935; New York: Libertarian Review Foundation, 1989], combined Oppenheimer's insights into the political and economic means of gaining wealth with the political analysis of the Jeffersonian Republicans described above.)

The work of the modern public-choice economists on "rent seeking" (the pursuit of wealth through the political means) is extensive and deserves careful reading; in many ways it is a powerful extension of the insights of the Italian fiscal theorists.

Serious students of classical liberalism should investigate the tradition of classical liberal social analysis for the powerful insights it provides; it is one of the most important keys to understanding the world of human interaction, both past and present. ◆

Invitation to History

Ralph Raico, a professor of history and a Senior Fellow of the Institute for Humane Studies, has written a useful look from a classical liberal perspective at recent work in history. Originally delivered at a Liberty Fund Symposium on "Liberty and Current Issues in the Humane Sciences," Raico's paper has been reproduced as an Institute working paper. The paper, "Some Aspects of Recent Historical Writing" (IHS Working Paper, 88/2), takes as its point of departure the historian Gertrude Himmelfarb's book *The New History and the Old* (Cambridge, Mass.: Harvard University Press, 1987). From cliometrics to class analysis in history to the history of slavery and the rise of collectivism, Raico surveys various schools, historians, and works. This is an excellent introduction to the study of history that should be read by every current or prospective history student interested in classical liberalism. History students aren't the only ones who should be aware of Raico's subject. Students in all the humane sciences will benefit from a better understanding of history. It will enrich their own disciplines and make them better scholars. Another work that serves as an excellent introduction to classical liberal historiography is Sheilagh Ogilvie's essay "Toward a Critical Classical Liberal History" (*Humane Studies Review*, [4] Spring 1987). (Individual copies of each essay are available at no charge; requests should be directed to The Editor, *Humane Studies Review*.)◆

Development Studies

What is the relationship between economic development—or its absence—and political structures? This is an important question for classical liberal scholars and an exciting field in which to apply insights drawn from economics, political science, history, and anthropology. In many cases, economists have merely recommended that developing nations substitute free markets for statist controls, without addressing the political factors that have led to the substitution of coercion for voluntary exchange. *Toward a Political Economy of Development: A Rational Choice Perspective* (Robert H. Bates, ed., Berkeley: University of California Press, 1988) offers an approach that integrates insights from economics with political science to form a system of political economy. Bates contributed a very good essay on "Government and Agricultural Markets in Africa" demonstrating that "the pattern of price interventions…represents the terms of a political pact among organized political interests, the costs of which are transferred to unorganized interests who are excluded from the price-setting coalition. Members of the pact are labor, industry, and government; small-scale farmers constitute its victims and large-scale farmers stand as passive allies, politically neutralized through subsidy programs." The result has been plummeting agricultural production, followed by shortage-induced shifts in the price-setting coalition that may lead to further changes in the political situation. Other noteworthy essays in the volume include Samuel Popkin's on "Public Choice and Peasant Organization" (Popkin is the author of the highly recommended *The Rational Peasant: The Political Economy of Rural Society in Vietnam* [Berkeley: University of California Press, 1979]), and David Feeny's on "Property Rights in Land: A Comparative Study," in which the emergence of institutional property-rights arrangements in South and Southeast Asia is examined. The quality of the essays is uneven and they don't always agree, but the collection is a laudable attempt to bring together insights drawn from economic science with careful attention to political structures and incentives. (Readers should also consult the Spring 1988 issue of *Humane Studies Review* for the essay by George B. N. Ayittey on "African Peasants and the Market System"; copies are available by writing to the Institute.)

One economist who has integrated economics and politics in his studies is P. T. Bauer. His early pioneering work, *West African Trade: A Study of Competition, Oligopoly and Monopoly in a Changing Economy* (Cambridge: Cambridge University Press, 1954; reprinted, New York: Augustus M.

(continued on page 14)

Crosscurrents *(continued from page 13)*

Kelley, 1963), deserves careful consideration by students of African development. In addition, the role of *kleptocracy* (rule by thieves) in African underdevelopment has been examined by the sociologist Stanislav Andreski in his work *The African Predicament: A Study in the Pathology of Modernization* (New York: Atherton Press, 1969).

An important recent work that attempts to integrate an understanding of economic (under)development with insights into indigenous politics is Richard Sandbrook's *The Politics of Africa's Economic Stagnation* (Cambridge: Cambridge University Press, 1985). As Sandbrook argues, while most African states are not fully collectivist, "African states are not, in any real sense, capitalist states. The peculiar conditions of postcolonial Africa impel an adaptation of colonial-inspired political structures and processes in a patrimonial, or rather neopatrimonial, direction. The omnipresent danger in this adaptation is a degeneration of neopatrimonialism into an economically irrational form of 'personal rule.' This decay, manifest in political instability, systemic corruption and maladministration, introduces irrationalities into economic life, but nonetheless is shaped by a particular political logic. These political phenomena cannot, therefore, simply be dismissed as mismanagement or ineptitude." Sandbrook may place too much weight on the positive role of the state in western economic development, but his approach to understanding African economic stagnation is most enlightening. Sandbrook's book could be profitably read in conjunction with Grace Goodell's insightful article "The Importance of Political Participation for Sustained Capitalist Development" (*European Journal of Sociology* [26] 1985), in which Goodell argues that "only through participation which is structured and rooted in actual behavior (not just voting, etc.) can society acquire and maintain the requisites for sustained capitalist development...." The real patterns of African economic life (in contrast to the virtually meaningless statistics studied by foreign-aid analysts) are also examined by economic anthropologist Polly Hill in her works *Rural Capitalism in West Africa* (Cambridge: Cambridge University Press, 1970) and *Development Economics on Trial* (Cambridge: Cambridge University Press, 1986).◆

Law, Defense, and Voluntarism

A recently published book on the history of the American vigilante movement sheds a great deal of light on the history of the voluntary provision of law and order in the United States. Patrick B. Nolan's *Vigilantes on the Middle Border: A Study of Self-Appointed Law Enforcement in the States of the Upper Mississippi from 1840 to 1880* (New York: Garland Publishing, 1987) provides a detailed look at the various Regulator Movements, Committees of Vigilance, Anti-Horse Thief Associations, and other organizations that provided law and order in the absence of effective governmental anticrime efforts. Contrary to popular myth, vigilante movements were not solely frontier phenomena; such organizations were rather principally *rural* and were found in many areas where the frontier was long past. Nolan looks at the role of vigilante groups in providing community in rural areas that experienced a great deal of social mobility (contrary to the myth of "organic rural community," American rural society was highly fluid in the nineteenth century), and in providing effective protection of life and property at a cost lower than government.

Nongovernmental provision of justice on the frontier is examined by Terry Anderson and P. J. Hill in their essay "An American Experiment in Anarcho-Capitalism: The *Not* So Wild, Wild West" (*Journal of Libertarian Studies* [3]). The authors show how, in the absence of effective government, "Private agencies provided the necessary basis for an orderly society in which property was protected and conflicts were resolved. These agencies often did not qualify as governments because they did not have a legal monopoly on 'keeping order.'" Anderson and Hill look at the historical record, focusing on land clubs, cattlemen's associations, mining camps, and wagon trains, and conclude that "in the absence of formal government, the western frontier was not as wild as legend would have us believe." Our understanding of this area has also been substantially advanced by Bruce L. Benson, whose forthcoming book *Crime, Police, and the Courts: Privatization and the Failure of Government* (San Francisco: Pacific Research Institute) examines the voluntary provision of law and order through history, skillfully applying economic insights to explain how law can emerge from lawlessness without a central source of power and coercion. (On the spontaneous generation of order and rules of conduct, see also Robert Sugden's *The Economics of Rights, Co-operation, and Welfare* [New York: Basil Blackwell, 1986].) Finally, the jurisprudence of a spontaneously evolving and polycentric legal order is examined in Randy Barnett's two-part article "Pursuing Justice in a Free Society" ("Part I: Power vs. Liberty"; "Part II: Crime Prevention and Legal Order" in *Criminal Justice Ethics*, Summer/Fall 1985, Winter/Spring 1986). (Copies of the Anderson-Hill and Barnett articles are available by writing to The Editor, *Humane Studies Review*.)◆

Complex Systems

A problem faces those involved in the quest for artificial intelligence: How can a system be designed that incorporates greater competence than the designers themselves are capable of? Two computer scientists have drawn insights from the spontaneous-ordering processes of the market to address this problem. Mark S. Miller of the Xerox Palo Alto Research Center and K. Eric Drexler of the MIT Artificial Intelligence Laboratory (also visiting scholar at Stanford University) together have written two articles that draw on the work of Robert Axelrod on the evolution of cooperation within computer simulated games (see *The Evolution of Cooperation*, New York: Basic Books, 1984), F. A. Hayek on the evolution of complex social systems, and Ronald Coase on the nature of the firm and its function in the market. The articles appear in *The Ecology of Computation* (B. A. Huberman, ed., New York: Elsevier Science Publishers, 1988). In "Comparative Ecology: A Computational Perspective," they compare various evolutionary ecosystems, including biological systems; Axelrod's computer-game tournaments; and what they term "direct" and "indirect" markets, drawing analogies for use in designing evolutionary computational systems. In "Markets and Computation: Agoric Open Systems," they point out the "fundamental parallels between the problems of social and computational organization" and propose "the wholesale importation of economic models and metaphors into the computational domain, at least on a trial basis." The results would be computational systems with greater effective intelligence than could be designed by "planners" (i.e., programmers). These essays demonstrate the widespread applicability of models of spontaneous order (biology, social systems, and now electronic computation) and should prove useful to students in computer science, political economy, economics, and choice theory, among other fields.◆

Economics Dictionary Scrutinized

Thousands of university libraries around the world have added to their collections *The New Palgrave: A Dictionary of Economics* (4 vols., New York: Macmillan, 1987). The work, aspiring to be *the* standard compilation of economic wisdom, has, however, come under withering criticism from scholars generally more sympathetic to the free market than are *The New Palgrave*'s editors. Arthur Seldon of the Institute of Economic Affairs (IEA) in London has written a two-part critique of *The New Palgrave* for *Economic Affairs* (February/March and April/May 1988), and IEA has published Mark Blaug's monograph *Economics Through the Looking Glass: The Distorted Perspective of The New Palgrave Dictionary of Economics* (London: Institute of Economic Affairs, 1988). A copy of Seldon's two-part article, including information on how to order Blaug's book, is available by writing to The Editor, *Humane Studies Review*.◆

Trust and Cooperation

The emergence of cooperation, on which any degree of civilization is dependent, requires the development of a significant degree of trust. Examinaton of the development of trust and cooperation has been central to several studies of spontaneous order, including Robert Axelrod's pioneering book *The Evolution of Cooperation* (New York: Basic Books, 1984). A new book, *Trust: Making and Breaking Cooperative Relations* (Diego Gambetta, ed., New York: Basil Blackwell, 1988) offers several essays, both theoretical and historical, on this topic. The range is appropriately interdisciplinary, including contributions by philosophers, social psychologists, biologists, historians, anthropologists, political scientists, and economists; they look not only at how trust is built up, but how it is destroyed, as well. This volume should prove useful to students interested in the emergence and maintenance of social order.◆

The Morality of Commerce

Many works on business ethics assume not merely that ethical standards are needed to govern business conduct, but that commerce and those engaged in it are inherently predisposed to unethical behavior, in contrast to "public spirited" civil servants. *Commerce and Morality* (Tibor Machan, ed., Totowa, N.J.: Rowman and Littlefield, 1988) offers a different perspective: business practice is "one of the numerous, legitimate, morally justified areas of human conduct" within which special ethical problems may arise, but commerce in itself is "quite proper." Among the issues treated in the volume are: managerial ethics; the ethics of advertising; employment and ethics; corporate social responsibility; morality and markets; and government regulation. This work is recommended for students of moral and social philosophy, business, and law.◆

Public Goods and "Market Failure"

The free society has been subjected to withering, if one-sided, criticism for an alleged inability to produce certain goods, called "public," or "collective," goods. Such goods are characterized by 1) the impossibility or costliness of excluding nonpurchasers or 2) "jointness of consumption" (meaning that consumption by one consumer does not diminish consumption of the same good by another; the picture on my television set does not become dimmer when you turn yours on, but my taking a bite out of an apple does leave less for you). The market's alleged inability to produce adequate quantities of such goods is called "market failure."

For many years this has provided the standard rationale for coercive government intervention into the market, whether in the form of regulation or of tax-supported provision of some goods. (Many if not most such "publicly" provided goods are not collective goods at all, but purely private goods the costs of which are shifted through coercion from their consumers to the public at large.) Recent decades, however, have seen a major change in attitudes regarding the role of the state in providing collective goods. First, scholars have begun to apply to government the same standards that have been applied so unfavorably to the free market; numerous examples of "government failure" have been found. This has shifted the emphasis: instead of comparing the market to "perfection," finding that it falls short, and then jumping to the conclusion that state action is necessary, it is seen as more realistic to use a "comparative institutions" approach. The market is compared directly with the state, rather than comparing the market with pure perfection and then *assuming* that the state is preferable. Second, scholars have begun to question the foundations of the traditional theory of public goods, in which it is assumed that "publicness" is an inherent characteristic of some goods *per se*, rather than a characteristic of their mode of production. (When political authorities choose, for example, to produce a good in a nonexclusive manner, the good is defined in terms of its availability to all; when this happens, market provision based on alternative forms of excluding nonpurchasers is ruled out by definition.)

Economist Tyler Cowen, a former IHS Claude R. Lambe Fellow and now assistant professor of economics at the University of California at Irvine, has collected many of the classic articles in the theory of market failure into an accessible and useful volume. *The Theory of Market Failure: A Critical Examination* (Fairfax, Va.: George Mason University Press, 1988) is divided into three sections. The first includes classic essays setting forth the market-failure perspective. The second section ("Developments in the Theory of Markets") is exceptionally rich with insights, including new approaches to the problem of collective goods. The third section ("Case Studies") includes studies of education, fire protection, lighthouses, and other services. Cowen also provides a fine essay that guides the reader through the history and the central issues of the theory of market failure. The essays in this book will illuminate many other issues in history, economics, and social theory, including the rise of the market, the rule of law, the growth of cities, and the current trend toward privatization. Every serious student of classical liberalism should read this book. (*The Theory of Market Failure* is available from Laissez Faire Books, 532 Broadway, 7th Floor, New York, NY 10012; the price is $21.75 plus $2.00 for postage and handling in the U.S., $3.50 for postage outside of the U.S.)◆

Comment

On the Decline of Classical Liberalism in America: A Comment on Davies

by Robert Higgs

Stephen Davies's bibliographical essay ("The Decline of Classical Liberalism: 1860-1940," *Humane Studies Review*, Vol. 5, 1987-1988) presents a wide-ranging and stimulating survey of a critically important issue in the political and economic history of the West. Although Davies considers several countries, he gives the bulk of his attention to Great Britain. He says relatively little about the United States, to which I shall confine my comments.

While economic-policy questions prompted comment, criticism, and recommendations by intellectuals, these questions invariably attracted people whose material and political interests would be affected substantially by the outcome of the policy contest.

Davies writes as if the "decline of classical liberalism" had to do with a "debate" between opposing schools of intellectuals. Of course, such a debate did occur. One can document its various aspects and nuances because the books and articles written by the opposing intellectuals are now sitting on library shelves accessible to scholars. The accessibility of such sources, however, holds certain dangers. One may slip too readily into thinking that the decline of classical liberalism involved mainly a shift in the intellectuals' attachments to various beliefs. Davies notes in his final paragraph, almost as an afterthought, that "the decline of liberal beliefs among the mass of population, as opposed to the intellectual elite," is an "important and unstudied topic." Quite possibly, the changing beliefs of the masses had a greater impact than the speeches and writings of intellectuals. Of course, it is much harder to find out what the masses were thinking. But it may not be wholly infeasible. In approaching this task, it would be worthwhile to study Aileen Kraditor's *The Radical Persuasion, 1890-1917: Aspects of the Intellectual History and the Historiography of Three American Radical Organizations* (Baton Rouge: Louisiana State University Press, 1981), an extraordinarily stimulating and beautifully written analytical study, much broader than its title suggests.

If concentrating on what the intellectuals were writing distracts us too much from what the masses were thinking and doing, it may also divert us too much from what the political and economic, as opposed to the intellectual, elites were doing. Davies observes that no one has tried to argue that the individualist-collectivist debate was primarily about economic policy, though his references to well-known works by Sidney Fine, James Gilbert, and Jonathan Hughes suggest a qualification with respect to the American case. In the United States the struggle—it was much more than a mere debate—definitely did involve economic policy. Indeed, economic policy was the focus. While economic-policy questions prompted comment, criticism, and recommendations by intellectuals, these questions invariably attracted people whose material and political interests would be affected substantially by the outcome of the policy contest. It is an open question how much influence the intellectuals had; no doubt it varied among the various policies adopted. But one is entitled to general skepticism.

I am not saying that the intellectuals were irrelevant or even unimportant. But if intellectuals exert influence, they usually do so in ways that are diffuse, delayed, and difficult to trace. They may ultimately change the rhetoric of policy discussion, bringing new questions onto the political agenda, shifting the burden of proof, or tilting the balance of public values away from old objectives and toward new ones. We are all familiar with Keynes's dictum about the power of ideas, as opposed to vested interests, in the long run; and many of us are inclined to agree with Keynes on this issue. But demonstrating the truth of the belief is another, vastly more difficult matter.

Even if the belief is valid, however, this way of viewing the power of ideas may harbor an unwarranted assumption about inevitable tendencies—what an economist would call convergence toward (ideological) equilibrium. Often, though, the world does not cooperate by flowing gently along a smooth path, adjusting with a lag to the ideas propounded by an earlier generation of academic scribblers. Events, sometimes earthshaking events, happen. Their occurrence and the way societies react to them can cause discrete deviations from what otherwise would have been the path of ideological evolution. I have argued in *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987) that the decline of classical liberalism in the United States

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followed such an erratic course, the world wars and the Great Depression serving as the critical shocks. In such a process the intellectuals themselves may be the most susceptible to altering their ideas in the face of suddenly changed societal conditions—they are always going off half-cocked, anyhow, seeing revolutions, crises, and great tranformations even when no one else perceives such cataclysms.

It is remarkable that nowhere in his essay does Davies mention the "trust problem," the conglomerate of policy questions associated with the emergence of the great

Among the original sources, one should examine not only the works of intellectuals and politicians, but the decisions of leading courts, especially the U.S. Supreme Court.

corporate enterprises. No other issue came close to this one as a focus of both the intellectual argument and the political struggles that attended the rise of collectivist thinking and policy in the United States between the 1880s and World War I. Valuable older works on this topic include Robert H. Wiebe's *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, Mass.: Harvard University Press, 1962), Gabriel Kolko's *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916* (New York: Free Press, 1963), and William Letwin's *Law and Economic Policy in America: The Evolution of the Sherman Antitrust Act* (Chicago: University of Chicago Press, 1965). Excellent recent studies are Stephen Skowronek's *Building a New American State: The Expansion of National Administrative Capacities, 1877-1920* (Cambridge: Cambridge University Press, 1982) and Thomas K. McCraw's *Prophets of Regulation* (Cambridge, Mass.: Belknap Press, 1984).

Finally, among the original sources, one should examine not only the works of intellectuals and politicians, but the decisions of leading courts, especially the U.S. Supreme Court. The struggles between individualists and collectivists often manifested themselves in law cases. At the appellate level, the judges who decided the cases usually supplied articulately reasoned arguments for and, when dissents occurred, against the decisions. The appellate judges therefore, almost uniquely, qualify as both important intellectual spokesmen and prime political movers. After reading introductions such as Lawrence M. Friedman's *History of American Law* (2nd ed., New York: Simon and Schuster, 1985) and Alfred H. Kelley, Winifred A. Harbison, and Herman Belz's *The American Constitution: Its Origins and Development* (6th ed., New York: Norton, 1983), the student will be better prepared to grapple with works such as Bernard H. Siegan's *Economic Liberties and the Constitution* (Chicago: University of Chicago Press, 1980) and Richard A. Epstein's *Takings: Private Property and the Power of Eminent Domain* (Cambridge, Mass.: Harvard University Press, 1985); but there is no good substitute for reading the decisions themselves.

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Voluntary Association (continued from page 2)

be the mark with which it had stigmatized the infant in his cradle, it vanished in the atmosphere of the city. This freedom, which at the beginning only merchants had enjoyed *de facto*, was now the common right of all the burghers *de jure*.[3]

The Rise of the State and the Provision of Public Goods

One by one, the communes were absorbed, often through force, by the nation-states that emerged to dominate western Europe in the fourteenth and fifteenth centuries. The communes of Flanders, defended by stubborn citizen militias, held out much longer than most. Despite this growing centralization, entrepreneurs and voluntary associations continued to be play a crucial role in the provision of urban services. Well into the nineteenth century in many countries, private suppliers underwrote the lion's share of services including police protection, court systems, sanitation, and water supply.

Market provision of urban infrastructure during the eighteenth and nineteenth centuries has generally been given short shrift by most historians. A great deal of attention has been focused on Great Britain; in that case, even the most recent histories rely inordinately on nineteenth-century authorities, such as Edwin Chadwick, best known as the author of several incomplete and propagandistic official reports urging greater governmental intervention in supplying police, sanitation, and poor relief.

Only in the last few years have a few historians, such as Stephen Davies (author of "The Decline of Classical Liberalism: 1860-1940," *Humane Studies Review*, Vol. 5, No. 2, Winter 1987-1988), begun to challenge Chadwickian assumptions about the inferiority of market provision. Davies has shown that private suppliers of water supply and sanitation pioneered in such technologies as filtration and sewage disposal. He blames many of the defects ascribed to private provision on government-granted monopoly charters and inadequate enforcement of common-law prohibitions against pollution. (See his "The Suppression of Private Provision," *Economic Affairs* [7] August/September 1987.)

Urban history offers concrete examples of the vitality of voluntarism as an organizing principle, from medieval Europe to twentieth-century America. The emerging world civilization may give birth to an even greater and more prosperous urban life, nurtured on voluntarism and liberty. In what follows I hope to introduce the reader to a few of the exciting insights offered by urban history and to the tremendous opportunities it offers for transforming our world.

Urban Development in America

The most influential book in American urban history of the past thirty years remains *Streetcar Suburbs: The Process of Growth in Boston, 1870-1900* (Cambridge, Mass.: Harvard University Press, 1962) by Sam Bass Warner, Jr. Warner's views are generally hostile to the free market. In fact, Warner made a point of faulting "successive generations of Americans who, by their unwillingness to move beyond the confines of private landownership, have produced today's disordered, inhumane, and restricted city."[4]

(continued on page 18)

Voluntary Association (continued from page 17)

Despite its biases, *Streetcar Suburbs* is full of valuable lessons about the role entrepreneurs have played in planning American residential development. The book can easily be read as a case study of spontaneous order in the building market. As Warner shows, zoning did not exist in the late nineteenth century and large developers (at least in home building) were virtually absent from the scene. Home construction and design were highly decentralized, with thousands of small contractors and individual homeowners controlling the process. Despite this, Warner noted a surprising standardization in architectural styles and building methods. "Somewhat paradoxically," he observed, "from the extreme individualization of agency in the building process came great uniformity in behavior, a kind of regulation without laws."[5]

Urban historians were slow to build on Warner's pioneering analysis of the dynamics of the real-estate market. Fortunately, these sins of omission are now being corrected. Marc A. Weiss has produced an excellent study of large-scale community development by real-estate subdividers in the twentieth century. Pointing to a pattern of "private innovation preceding public action," Weiss observes:

> The classification and design of major and minor streets, the superblock and cul-de-sac, planting strips and rolling topography, arrangement of the house on the lot, lot size and shape, set-back lines and lot coverage restrictions, planned separation and relation of multiple uses, design and placement of parks and recreational amenities, ornamentation, easements, underground utilities, and numerous other physical features were first introduced by private developers and later adopted as rules and principles by public planning agencies.[6]

Ann Durkin Keating, in her study of Chicago's suburbs during the late nineteenth century, found numerous examples of developers and business associations installing "improvement packages" (sewers, streetcar line extensions, parks, streets, water supply) as an inducement to home buyers. Often, a developer petitioned the state legislature to incorporate the area of his landholdings into a separate city government. Several of Chicago's suburbs, including Riverside and Kennilworth, originated as appendages to real-estate investments. In most cases, incorporation was used as an opportunity to transfer responsibility for many of these privately developed services, particularly streets and sewers, to the new local government.[7]

Dedication to "public use" did not always occur. The streets and sewers of the town of Pullman (laid out by the Pullman sleeping-car company) remained under private ownership until the area was annexed by the city of Chicago in the 1880s. Developers, however, rarely followed the private-street model. One major exception to this norm can be found in St. Louis, Missouri, and neighboring St. Louis County. During the late nineteenth and early twentieth centuries, nearly one hundred private subdivisions (or private places) were laid out within the city of St. Louis. A private place could encompass one or more streets and was governed by an elected lot association. Not only did each private place own and maintain its streets, but in many cases it also owned the sewers, water mains, and utility easement.[8]

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The rules for each private-place association were laid down in its "indenture," or restrictive covenant. Most covenants were framed by the initial subdivider and contained house set-back requirements, restrictions against multifamily housing, and private building codes. Covenants authorized the collection of annual assessments to pay for the upkeep of the streets, water mains, parks, and other common areas. If a lot owner refused to pay annual assessments, the association had the power to place a lien on the property and sue in a court of equity. In this respect, the private place is similar to the modern condominium and shopping-mall association.[9] All of these arrangements serve fundamentally the same function as the public oaths of the medieval Peace of God and communal movements: a voluntary covenant is made to provide collective goods, whether peace, parks, or waste disposal. They have the advantage, however, of resting on specified contractual obligations and sanctions rather than on social customs and mores alone.

The urban designer Oscar Newman has likened private places to "small independent cities." This comparison has merit. The private places carried on functions that everywhere else have been considered essential government services. By other measures, the analogy to government does not hold. First, unlike governments, the private place did not enjoy a perpetual existence. It often proved flexible in withstanding and redirecting economic change and political pressure—but there were limits. More than half of the original private places in St. Louis have become public streets.[10]

Economists Donald J. Boudreaux and Randall G. Holcombe have provided a useful schema to understand the difference between the private place and government. According to Boudreaux and Holcombe, the private place association is a type of "contractual government." "The establishment of a contractual government," they conclude, "appears to be the closest thing to a real-world social contract as can be found because people must make the explicit choice of moving into the contractual government's jurisdiction, and the government is at no time imposed on anyone."[11]

Interestingly, using Boudreaux and Holcombe's approach, a competitive process can be discerned in the development of private places. There is a competitive discovery process in the provision of "private government" that allows voluntary associations to reduce the costs of arriving at efficient constitutional rules. In F. A. Hayek's words, competition is a "discovery procedure."[12] My own research has shown that this procedure was operative in the evolution of the rules governing private places: those with severely restrictive unanimity requirements (in some cases requiring one hundred percent agreement before changes—such as installation of electrical lighting—could be made) either found ways of changing their constitutions or declined. On the other other hand, those with rules that were inadequately restrictive and allowed bare majorities to make changes affecting the entire group faced similar fates. There is a noticeable shift over time toward constitutional rules that required levels of agreement between unanimity and a bare majority, offering strong evidence for the Boudreaux-Holcombe thesis.

The private places' method for providing urban infrastructure illustrates its response to the free-rider problem.[13] Individuals who bought homes agreed, under the conditions of the restrictive deed, to pay for these services through the assessments levied by the private-place association. Any free rider who refused to pay, yet used the services, could be easily brought to terms through legal devices contained in the restrictive covenant. Moreover, residents had a direct economic stake in insuring the effective collection of assessments. When services are provided by governments, the costs and benefits of these services are socialized on a grand scale. The free rider on the private place is a real person known to all concerned. The free rider on government-provided services is usually a faceless abstraction.

In many other respects, however, the pressure to conform to a "community standard" may have been less on the private places. Because residents of public streets could not turn to a deed-based contractual association as protection from free riders, they had little choice but to rely on "moral suasion." Historian Alexander Scott McConachie summed up vital

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differences between public streets and private places during the late nineteenth century:

> The development of customs and taboos as a means of keeping up the tone of the neighborhood, such as the famous porch scrubbing of South St. Louis, seems not to have been a facet of the private place style. There was no need for the vigilance and the subtle pressures toward conformity which were the price of maintaining quality on unregulated middle class blocks.[14]

Although private streets exist throughout the country, in no other large city are they nearly so common as in St. Louis. No single reason can explain the wave of private-place building that took place in St. Louis during the late nineteenth and early twentieth centuries. One reason, often ignored by historians, was the notoriously poor infrastructure provided by the city government of St. Louis during this period. Spending on streets and sewers was severely restricted by tax, debt, and spending limitations. Moreover, the money spent was often drained away by corruption and mismanagement. As one local commentator aptly put it at the time, "we [the city government] may have been bad, but we were never bold."[15] If a developer wanted infrastructure for his properties, often he had no choice but to provide it himself.

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Restrictive covenants were not specific to either private places or to St. Louis. By the turn of the century, they were commonly used by real-estate developers throughout the country. Most restrictive covenants were binding agreements placed on deeds by the initial developers of subdivisions. Common features included set-back requirements (governing the distance between building and street) and prohibitions against multifamily housing. Every property on a particular street would be covered by the restrictions (usually instituted before the initial sale by the developer) but enforcement would be completely in the hands of individual lot owners. Left to their own initiative, people were often lax in bringing litigation to stop violations. The courts generally invalidated restrictions if left unenforced over long periods of time. J. C. Nichols, the developer of Kansas City's Country Club district, described an ordinary chain of events:

> One owner, seeing that another owner has somewhat violated his restriction, goes a little further in the violation. The same adjoining owner, realizing that the restrictions had not been properly regarded by his neighbors, either in disregard or desperation, seriously violates the restriction and suddenly the

(continued on page 20)

Voluntary Association (continued from page 19)

> neighborhood awakens to the fact that the abandonment has become very general and the restrictions of little force.[16]

Nichols's observations about the problem of enforcement have been echoed by some historians. "Where enforcement rested on individual or voluntary action," Andrew J. King concluded in his history of restrictive covenants in Chicago,

The first zoning laws were passed in California to discriminate against Chinese laundries. Other early zoning laws, in cities such as Louisville and St. Louis, were directed toward segregating blacks and whites by blocks.

"the cost of enforcement and the difficulty of coercing participation generated a desire for public solutions. Though some owners successfully organized to enforce restrictions, their efforts consumed both time and money." With much success, the private-place covenant writers overcame this drawback by delegating enforcement power to a lot association or a group of trustees. The average private-place association existed as a continuing legal entity, armed with enforcement power, and thus alert to prevent violations from getting out of hand. As a group with ownership rights, the private-place association had a permanent interest in protecting the investments of its members. Public-street associations, on the other hand, too often had to depend on individual vigilance and the fickle fortunes of "neighborhood spirit."[17] More research needs to be done before definitive conclusions can be drawn about the relative effectiveness of public-street restrictive covenants and private-street restrictive covenants.

Zoning v. Restrictive Covenants

In the early twentieth century, urban planners offered zoning as a solution to the enforcement difficulties of restrictive covenants. The actual legacy of zoning, according to Bernard Siegan, has been to distort and misdirect urban land-use patterns. Siegan argues that high lot size requirements, which are a staple of zoning laws, have subsidized the single-family middle class homeowner at the expense of the poor.[18]

Siegan's research focuses on Houston, the only large American city never to enact a zoning law. Interestingly, referenda to enact zoning often win the support of middle-class, suburban homeowners, but lose heavily in the poorer inner city. Siegan contends that Houston's lack of zoning has given its housing market an unusual flexibility. Even during the oil boom of the 1970s, for example, the city had a much higher vacancy rate for apartments than comparable American cities. Restrictive covenants are a hallmark of Houston's real-estate market. Siegan challenges prevailing critiques of restrictive covenants, persuasively arguing that they have proven more responsive and effective than zoning.[19]

Historians have subjected the applications, if not the theory, of zoning to some pointed barbs. Warner points out that the first zoning laws were passed in California to discriminate against Chinese laundries. Other early zoning laws, in cities such as Louisville and St. Louis, were directed toward segregating blacks and whites by blocks. The enactment of New York's landmark zoning law was spearheaded by owners of retail property on Fifth Avenue who wanted to exclude tall buildings leased by Jewish garment manufacturers.[20]

Nonetheless, Warner, like virtually all historians, does not question the validity of zoning *per se*. Indeed, he endorses an expansion of zoning power—albeit in the service of different ends. Warner's criticism of the practice of zoning, though often insightful, raises more questions than it answers. Although he points out that professional home sellers were leading backers of zoning, he tells little about where commercial property owners stood on the issue. Moreover, he never examines why the alternative of restrictive covenants was rejected, nor does he discuss the exception of Houston. Part of the reason for these blind spots is that Warner, like other historians, simply assumes zoning to be a logical extension of restrictive covenants: a difference in degree but not in kind.

The Spontaneous Order of the City

No urban historian can afford to ignore the writings of Jane Jacobs. Although not primarily a work of history, Jacobs's *Death and Life of Great American Cities* (New York: Vintage Books, 1961) is probably the most important book on urban issues written in the last three decades. Jacobs launched a frontal attack on the pretensions of urban planners and implicitly called into question the worth of planning *per se*. She charged that urban planners, through zoning, urban renewal, eminent domain, and other tools of their trade, had drained the life out of downtown areas and neighborhoods. Jacobs scored her most telling points when she dissected the planners' penchant for lining the slums with "greenbelts." The concept of the greenbelt arose out the deep-seated anti-urban bias of reformers who wanted to bring the country to the city. As Jacobs pointed out, the legacy of the greenbelt movement can be observed by any traveler to the inner city. By the 1960s, when Jacobs wrote, greenbelts were already notorious as lifeless weed- and crime-ridden expanses deserted by local residents, who, much to the consternation of reformers, still preferred to patronize the more vital and safe crowded streets.[21] (This can be contrasted with private block parks, such as Gramercy Park in New York, which is privately owned and available only to residents of the surrounding apartment buildings. Violent criminals and vandals are excluded from such private parks because they are fenced and keys are available only to those who contribute in some way to their maintenance.)

The concept of the greenbelt arose out the deep-seated anti-urban bias of reformers who wanted to bring the country to the city.

The Political Economy of Privy Vaults

The public sewer has become so commonplace to American cities that it is easy to forget that, as late as 1880, more than two thirds of urban households still depended on individual privy vaults to dispose of human waste. Usually, the privy vault was a brick-lined hole in the ground, which was periodically emptied by "excavator" companies that sold the contents to farmers for use as manure. A little-known fact is that the British classical liberal Herbert Spencer coupled his criticism of government sewer-building programs with calls for expanding the use of recycling under the privy-vault system.[22]

The conventional view advanced by historians, such as Nelson Manfred Blake, portrayed the installation of tax-financed sewer systems during the late nineteenth century as an unambiguous step forward in sanitation quality. Such accounts have usually been accompanied by lurid condemnations of the privy vault as a leaky public-health nuisance. While there is much truth in these depictions, historians have neglected to ask whether technological improvements—accompanied by stricter enforcement against liability for privy-vault pollution—could have remedied the defects.[23]

Ironically, according to a recent study by historian Joel Tarr, the introduction of municipal sewers may have increased pollution. Most sewers, Tarr points out, used a "water carriage" technology relying on storm water to carry human waste to the dumping location. Under this system, the heavy flow of storm water rendered recycling almost impossible. As a result, larger quantities of sewage found their way into lakes and rivers. Tarr's research revealed that the incidence of water-borne diseases, such as typhoid, actually increased in many cities after the introduction of municipal sewers. Moreover, the cheaper water-carriage system priced developing technologies, such as sewage irrigation, out of the market.[24]

Conclusion

Through urban history we are able to trace the development of city life from its roots in the medieval communes to the developers, condominiums, and other voluntary arrangements of our own day. In the process we are also able to witness the growth of western law and western liberty: from sworn oaths made in public to voluntary contract, the history of the western city aptly follows the well-known path from "status to contract" traced by Henry Sumner Maine.[25] This evolution, from collective oaths and covenants to very specific and individual private contracts, has made possible the emergence of what Adam Smith called the "Great Society," a self-ordering system of economic and social arrangements that does not rely on a coercive ordering force.

Classical liberal historians often find the choice of a research topic daunting. This affliction can be readily treated by surveying some of the authors dealt with in this essay. The range of questions that remains to be answered is great, and the challenge to classical liberal historians—whether beginning students or advanced scholars—is an exciting one. The urban-history-research trail blazed over a hundred years ago by the classical liberal historian Augustin Thierry is well worth traveling.

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Notes

[1]Stanley Mellon, *The Political Uses of History: A Study of Historians in the French Restoration* (Stanford: Stanford University Press, 1958), p. 9.

[2]Augustin Thierry, *The Historical Essays and Narratives of the Merovingian Era* (Philadelphia: Carey and Hart, 1845) p. 102 and Henri Pirenne, *Medieval Cities: Their Origins and the Revival of Trade* (Princeton: Princeton University Press, 1974).

[3]Pirenne, p. 193.

[4]Sam Bass Warner, Jr., *The Urban Wilderness: A History of the American City* (New York: Harper and Row, 1972), p. 15.

[5]Warner, *Streetcar Suburbs*, p. 17.

[6]Marc A. Weiss, *The Rise of the Community Builders: The American Real Estate Industry and Urban Land Planning* (New York: Cambridge University Press, 1987), p. 3.

[7]Ann Durkin Keating, "Real Estate Developers of Improved Subdivisions, Mentors of Suburban Government." A paper presented at the Suburbia Re-examined Conference, Hofstra University, June 12-13, 1987, p. 5; and Keating, "From City to Metropolis: Infrastructure and Residential Growth in Urban Chicago in *Infrastructure and Urban Growth in the Nineteenth Century* (Chicago: Public Works Historical Society, 1985).

[8]Keating, p. 20.

[9]For more on the shopping center and other "private governments," see Spencer McCallum, *The Art of Community* (Menlo Park, CA: Institute for Humane Studies, 1970) and Steven J. Eagle, "Shopping Center Control: The Developer Besieged," *Journal of Urban Law* [51] 1974.

[10]Oscar Newman, *Community of Interest* (Garden City: Anchor Press/Doubleday, 1980) p. 125.

[11]Donald J. Boudreaux and Randall G. Holcombe, "Government by Contract," *Public Finance Quarterly* (forthcoming). Their work is complementary to the thesis offered by James M. Buchanan in his "An Economic Theory of Clubs," *Economica*, February 1965.

[12]F. A. Hayek, "Competition as a Discovery Procedure," in his *New Studies in Philosophy, Politics, Economics and the History of Ideas* (Chicago: University of Chicago, 1978).

[13]To be more precise, this is not so much a *response* to the free-rider problem as a *negation* of it, a kind of built-in internalization of externalities. Much of the literature on collective goods and free-riding assumes that free-riding is a "natural" and omnipresent condition that state action helps to overcome. In fact, most free-riding is created by the state, which of all social institutions is undoubtedly the greatest *generator* of free-riding. See Joseph Kalt, "Public Goods and the Theory of Government," *Cato Journal*, Fall 1981.

[14]Alexander Scott McConachie, "The 'Big Cinch': A Business Elite in the Life of a City, St. Louis, 1895-1915" (St. Louis: Washington University, Ph.D. dissertation, 1976), pp. 335-36.

[15]*The Mirror*, August 29, 1901.

[16]J. C. Nichols, "A Developers View of Deed Restrictions," *Journal of Land and Public Utility Economics* [5] May 1929, p. 133.

[17]Andrew J. King, "Law and Land Use in Chicago: A Prehistory of Modern Zoning," (Madison, Wisc.: University of Wisconsin, Ph.D. dissertation, 1976), p. 51. By the 1910s and 1920s, many covenants also included restriction on the selling of homes to blacks and, occasionally, Jews. A comprehensive study of racial restrictions is still needed. Little is known about the percentage of covenants that contained racial restrictions or how effectively these were enforced. Recent research has revealed, for example, that the racial restrictions found unconstitutional by the U.S. Supreme Court in its landmark

Voluntary Association (continued from page 21)

ruling of *Shelley* v. *Kramer* in 1948 had been systematically violated for decades. Helen Monchow's excellent survey of restrictive covenants included a chapter on racial restrictions. See Monchow, *The Use of Deed Restrictions in Subdivision Development* (Chicago: The Institute for Research in Land Economics and Public Utilities, 1928).

[18]Bernard H. Siegan, *Land Use Without Zoning* (Lexington, Mass.: D.C. Heath, 1972).

[19]Siegan, p. 23-76.

[20]Warner, *The Urban Wilderness*, p. 28. For more detailed information on early zoning laws, see Seymour I. Toll, *Zoned American* (New York: Harper and Row, 1969); Garrett Power, "Apartheid Baltimore Style: The Residential Segregation Ordinances of 1910-1913," *Maryland Law Review* [42] 1983, pp. 289-328; and Barbara J. Flint, "Zoning and Residential Segregation: A Social and Physical History, 1910-1940," (Chicago: University of Chicago Ph.D. dissertation, 1977).

[21]Jacobs's work on the economics of cities is also essential reading. See in particular *The Economy of Cities* (New York: Random House, 1969). Kenneth Jackson has offered another stinging critique of federal urban policies in *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985). Jackson makes a persuasive case that the federal government, through its home-loan policies, originated the practice of "red-lining." The standard work on urban renewal remains Martin Anderson's *The Federal Bulldozer* (New York: McGraw-Hill, 1964).

[22]Herbert Spencer, "Sanitary Supervision," in *Social Statics: Together with the Man Versus the State* (New York: D. Appleton and Company, 1892), pp. 200-220.

[23]Nelson Manfred Blake, *Water for the Cities: A History of the Urban Water Supply Problem in the United States* (Syracuse, N.Y.: Syracuse University Press, 1956). Two excellent introductions to the free-market perspective on water supply, ownership, and conservation issues are Terry Anderson, *Water Crisis: Ending the Policy Drought* (Washington, D.C.: The Cato Institute, 1983) and Anderson, ed., *Water Rights: Scarce Resource Allocation, Bureaucracy, and the Environment* (San Francisco: Pacific Institute for Public Policy, 1983).

[24]Joel A. Tarr, with James McCurley III, Francis C. McMichael, and Terry Yosie, "Water and Wastes: A Retrospective Assessment of Wastewater Technology in the United States, 1800-1932," *Technology and Culture* [25] April 1984 and Tarr, "From City to Farm: Urban Wastes and the American Farmer," *Agricultural History* [44] October 1975.

The use of sewer and water provision by cities to promote, and occasionally coerce, outlying areas into accepting annexation has been ably demonstrated in Arnold Fleischmann, "The Territorial Expansion of Milwaukee: Historical Lessons for Contemporary Urban Policy and Research," *Journal of Urban History* [14] February 1988. In the 1920s, for example, Milwaukee's public water works required customers outside city boundaries to sign pro-annexation petitions as a condition of getting service.

[25]Henry Sumner Maine, *Ancient Law* (1861; Gloucester, Mass.: Peter Smith, 1970): "Starting, as from one terminus of history, from a condition of society in which all the relations of Persons are summed up in the relations of Families, we seem to have steadily moved towards a phase of social order in which all these relations arise from the free agreement of individuals. In Western Europe the progress achieved in this direction has been considerable." (p. 163) "[W]e may say that the movement of the progressive societies has hitherto been a movement *from Status to Contract*." (p. 165).

Locke (continued from page 4)

ing Human Understanding (Berkeley: University of California Press, 1983). Wood employs Marxian class analysis in an attempt to unearth the political implications of Locke's epistemology. Wood asks the same questions about *An Essay Concerning Human Understanding* that Ashcraft asks about the *Two Treatises*. "For whom," Wood asks, "was Locke writing the *Essay*? What kind of audience was he interested in reaching?" The answer to these questions "may tell us something about the political nature of the *Essay*" (p. 41).

Now, perhaps it is simple-minded of me, but I suspect that Locke wrote the *Essay* (and the *Two Treatises*) for anyone who cared to read them. But Wood has a different opinion:

> It is evident...that Locke wrote the *Essay* essentially for educated, intelligent men of property—peers and gentry, professionals, civil servants, men of letters, merchants and manufacturers—who had leisure and inclination for study and participation in public affairs (p. 46).

Not surprisingly, Wood concludes that the *Essay* "was a vehicle for the conveyance of the values and sentiments of the emergent bourgeoisie" (p. 5).

Locke's audience as seen by Wood differs from Locke's audience as seen by Ashcraft. For Ashcraft, Locke was addressing not just an "emergent bourgeoisie," but also artisans and small tradesmen—the lower rungs of the working class. Thus, Ashcraft's Locke emerges as far more radical than Wood's Locke. Such disagreements are inevitable when we analyze an author in terms of his supposed audience and then read the values of that audience back into the author's work.

Nevertheless, although some of Ashcraft's points are questionable, I believe he presents a credible case for a radical Locke. Now, let's glance at some of the arguments used by Ashcraft in his effort to forge a link between Locke and the Levellers.

Disagreements are inevitable when we analyze an author in terms of his supposed audience and then read the values of that audience back into the author's work.

The Leveller Connection

It is well-known that Locke was a friend and protégé of the First Earl of Shaftesbury (Anthony Ashley Cooper), and that Locke worked closely with Shaftesbury in opposition to Charles II. Unfortunately, Locke was highly secretive about his political activities, so a good deal of educated guesswork becomes necessary.

In 1676, Shaftesbury moved to London, where he began to organize a coalition of Dissenters and commercial interests. A year later, political dissidents in London formed the Green Ribbon Club, a political organization with secret membership. The name of the Green Ribbon Club is significant, for green ribbons had been the Leveller insignia.

Information on the Green Ribbon Club is scanty, so Ashcraft cannot establish a definite connection between it and Shaftesbury (and, by implication, Locke). Nevertheless, the Green Ribbon Club shared the ideology and political goals of Shaftesbury's circle; and, as critics noted,

Critics assailed the radical Whigs for their "levelling" tendencies. The Whigs, Tories charged, would unleash "a many-headed monster" on society and plunge England into anarchy.

Shaftesbury often rubbed shoulders with "state-malcontents" and the "meanest and basest of the people"—the same kind of people who belonged to the Green Ribbon Club.

Throughout his book, Ashcraft emphasizes how Shaftesbury, while building his opposition party during the Exclusion Crisis, appealed to merchants, tradesmen, artisans, and shopkeepers—the "pert tradesmen," "meaner sort of people," and "rabble," as Tories liked to call them. These were the same groups from which the Levellers had drawn their support decades earlier. Thus, critics assailed the radical Whigs for their "levelling" tendencies. The Whigs, Tories charged, would unleash "a many-headed monster" on society and plunge England into anarchy.

Shaftesbury's Whigs were repeatedly accused of harboring Leveller and Republican principles. Some historians dismiss these charges as propaganda, but Ashcraft believes that we should take them more seriously. Ashcraft concedes that Shaftesbury was not a closet Leveller, but former Levellers and Commonwealthmen did assist Shaftesbury's efforts. Ashcraft mentions a number of people (the most famous being John Wildman and Algernon Sidney), but his list accentuates a recurring problem in *Revolutionary Politics*. A few of the men on Ashcraft's list had Leveller connections, but the majority are more accurately described as "Commonwealthmen," that is, those who sided with Parliament during the Civil Wars.

Now, to demonstrate a relationship between Locke and the Commonwealthmen is one thing, but to show a similar relationship to the Levellers—the radical wing of the Commonwealthmen—is another thing entirely. Ashcraft wants to highlight the Leveller influence on the *Two Treatises*, but he often uses "Leveller" in the same breath with "Commonwealthman" and "Republican." Had Ashcraft differentiated these terms, I believe he would have avoided some needless confusion.

Ashcraft regards as plausible "the fears being expressed on behalf of the gentry that Commonwealthmen and Levellers were beginning to reappear in the political arena" (p. 249). Shaftesbury and his cohorts, therefore, needed to reassure the landed gentry (another group courted by Shaftesbury) that the radical Whigs were firm believers in property rights. This, Ashcraft maintains, is "especially instructive in explaining why the chapter on property is accorded such prominence in the *Two Treatises*" (p. 251).

At times, I think Ashcraft pushes this kind of speculation too far. For example, he observes that Locke shared the Leveller hostility to primogeniture, but this doesn't tell us much until we know how widespread such opposition was among non-Levellers. Additional research in this area might prove illuminating.

Another suggestion by Ashcraft is even more troublesome. Some seventeenth-century theorists, such as Grotius and Pufendorf, defended first-occupancy as the foundation of land ownership. Locke, in contrast, defends a labor theory of ownership, where labor must be "mixed" with the land to bestow title. Beginning with Locke's emphasis on labor, Ashcraft spins out an elaborate argument designed to show that "Locke's chapter on property is one of the most radical critiques of the landowning aristocracy produced during the last half of the seventeenth century" (p. 273). Here, then, is another link to the Levellers.

All this is highly speculative, to say the least. Did the "first occupancy" theory lend aid and comfort to that idle portion of the aristocracy who made no effort to improve their land? Ashcraft advances this theory, but then pulls back. Tories didn't have much to say about the origin of property rights; and to the extent that they did express opinions, most believed that all land in the kingdom ultimately belonged to the King. Moreover, some Whigs (including Locke's friend James Tyrell) upheld versions of first-occupancy theory, so the dispute over original property titles did not divide along party lines.

I agree with Ashcraft that Locke's theory of property was radical, but I think he misses (or at least doesn't sufficiently emphasize) the major reason for this. Locke shared the belief of many of his contemporaries that natural resources had originally belonged to all men in common. (Ashcraft detects radical undercurrents even in this seventeenth-century truism.) Grotius, Pufendorf, and others explained the transition from common dominion to private ownership by arguing that all mankind had consented to the change (though they stipulated that this consent was "tacit" and occurred in stages.) Thus, for these theorists, property rights were "conventional."

Sir Robert Filmer, Locke's chief antagonist in the *Two Treatises*, shot a gaping hole in this theory. Filmer pointed out the improbability of private property arising from the unanimous consent of mankind. Yet, "without such a unanimous consent, it was not possible for community to be altered: for if but one man in the world had dissented, the alteration had been unjust [and] robbed him of his right to the common use of all things." ("Observations Upon H. Grotius," in Peter Laslett, ed., *Patriarcha and Other Political Works of Sir Robert Filmer* [Oxford: Basil Blackwell, 1949], p. 273.)

Locke was thoroughly familiar with Filmer's works, and he undoubtedly was aware of Filmer's demolition of the "consent theory of property." Near the beginning of his chapter on property, Locke states his intention to justify private property without relying on consent:

"I shall endeavor to shew, how Men might come to have a *property* in several parts of that which God gave to Mankind in common, and that without an express Compact of all the Commoners" (Laslett ed., p. 327).

Locke begins his defense of property by positing an

(continued on page 24)

Locke (continued from page 23)

exception to common dominion: the individual person. "[E]very person," Locke writes in a famous passage, "has a *Property* in his own *Person*. This no Body has any right to but himself." Next, Locke introduced labor as one facet of self-ownership, and he concludes: "Whatsoever then he removes out of the State that Nature hath provided, and left it in, he hath mixed his *Labor* with, and joyned to it something that is his own, and thereby makes it his *Property*."

The upshot of Locke's argument is that private property is not a social convention resting on consent. On the contrary, private property is a natural right required for human survival; as Locke states, "The condition of human life, which requires labor and materials to work on, necessarily introduces private possessions."

Ashcraft criticizes those who treat the *Two Treatises* solely as an abstract work written for the ages. Instead, he believes that the *Two Treatises* shows both Locke the philosopher *and* Locke the political activist.

Specifically, Locke's discussion of property was meant, in part, "to provide a defense of 'the industrious' and trading part of the nation—the constituency to whom the Whigs addressed their appeals—against the idle, unproductive, and Court-dominated property owners" (p. 264). Thus, we should not view Locke's defense of property as merely theoretical. Following Shaftesbury's agenda, he needed to reassure the gentry that their property would be secure under a Whig regime; while, at the same time, he retained the radical natural-rights language "that appealed to the urban commercial classes of Whig supporters" (p. 281). In Ashcraft's opinion, Locke did a good job in his dual role as philosopher and activist:

> If we place Locke's discussion of property within this political context, we can appreciate how admirably he fulfilled these requirements [of appealing to the gentry and commercial classes] while also resolving the theoretical problem of property that had preoccupied Grotius and Pufendorf (p. 281).

Ashcraft criticizes those who treat the Two Treatises *solely as an abstract work written for the ages. Instead, he believes that the* Two Treatises *shows both Locke the philosopher and Locke the political activist.*

Similarities and Differences

One way to test Ashcraft's thesis of a Locke-Leveller connection would be to compare the theories and proposals of both. This formidable undertaking may prove fruitful for a student in search of a dissertation topic. I can only scratch the surface here.

One of the most theoretical of Leveller tracts is Richard Overton's "An Arrow Against All Tyrants" (in G. E. Aylmer, ed., *The Levellers in the English Revolution* [Ithaca: Cornell University Press, 1975], pp. 68-70). There are interesting similarities between Overton and Locke, beginning with Overton's defense of self-proprietorship:

> To every Individuall in nature, is given an individuall property by nature, not to be invaded or usurped by any: for every one as he is himselfe, so he hath a selfe-propriety, else could he not be himselfe, and on this no second may presume to deprive any of, without manifest violation and affront to the very principles of nature, and of the Rules of equity and justice between man and man....

Overton, like Locke, believes that man is naturally free, so legitimate political power can arise only from "deputation, commission, and free consent." Political rulers so commissioned are empowered to preserve the "safeties and freedomes" of the people, "but no more."

These similarities don't prove much, because many non-Levellers (such as John Milton) employed the same kind of contractarian language during the 1640s. But Overton does anticipate Locke with an argument that was not as common. According to Locke, a people cannot contract themselves into political slavery (absolute monarchy), because the individual does not possess the right to destroy himself. Thus lacking this absolute power over himself (a power possessed only by God), the individual, or a nation generally, cannot delegate this right to another. The same argument was articulated by Overton:

> [A]s by nature, no man may abuse, beat, torment, or afflict himselfe, so by nature, no many may give that power to another, seeing he may not doe it himselfe, for no more can be communicated from the generall than is included in the particulars, whereof the generall is compounded.

It would be interesting to explore how widespread this argument was among English theorists. If it should turn out to be an argument peculiar to the Levellers, then, since Locke used the same reasoning, it might support Ashcraft's thesis of a Leveller connection.

Other parallels between Locke and the Levellers are readily available, but these exist in the realm of theory—and, again, much of this theory was shared by other, less radical, theorists. When we descend to specific Leveller proposals, however, the parallels virtually disappear. There were many parts of the Leveller agenda on which Locke was silent. Here

is a partial list:

The Levellers wished to broaden the franchise to include all men twenty-one and over (except "servants" and those receiving alms). They called for annual elections and rotation in office. They opposed military conscription and self-incrimination. They denied to Parliament the right to pass any laws that interfere with free trade or that impose "excise or customs" duties "upon any sort of food, or any other goods, wares or commodities." They called for the abolition of debtor's prison, tithes, and capital punishment (except for murder "or other like heinous offences destructive to humane society"). And they insisted that the military power should never "come to be superior to the Civil Authority." ("An Agreement of the Free People of England," 1649, in Aylmer, pp. 160-168.)

There were many parts of the Leveller agenda on which Locke was silent: expanded franchise; no conscription; annual elections; free trade....

The Levellers called for specific and severe constraints on the powers of Parliament. Locke, in contrast, says that Parliament should promote the public good and remain true to its public trust, but he is extremely vague regarding details. Moreover, we don't find in Locke the typical Leveller assault on the English legal system as a vestige of the Norman Conquest. ("Our very laws were made by our conquerors," as John Wildman put it in 1647 during the famous "Putney debates.") If Locke intended the *Two Treatises* to be a 1680s version of Leveller thinking, we must wonder why he omitted virtually every major plank of the Leveller platform.

Ashcraft does discuss one apparent discrepancy between the Shaftesbury-Locke group and the Levellers: manhood suffrage. In the process, Ashcraft rebuts C. B. Macpherson's skewed interpretation of the Levellers contained in his *The Political Theory of Possessive Individualism* (Oxford: Oxford University Press, 1962). In their final platform—the third "Agreement of the People"—the Levellers excluded "servants" and alms-takers from the suffrage. But, as Ashcraft asserts, this was a compromise, a "realistic political bargain" made with the more conservative followers of Oliver Cromwell. And, contrary to Macpherson, the label "servant," as used in the seventeenth century generally and by the Levellers specifically, did not mean "wage-earners." This is "simply a fiction of Macpherson's creation" (p. 158). Ashcraft writes:

> [W]hen the Levellers excluded servants from their post-Putney writings, they clearly were not thinking of the thousands of miners, the weavers receiving piece-rate wages, seamen or soldiers; it was the personal servant within a household they had in mind.... [E]ven after their pragmatic concessions, the Levellers could view themselves as defenders of the enfranchisement of 85 percent of adult males (p. 160).

Having rehabilitated the Levellers on the subject of manhood suffrage, Ashcraft turns to Shaftesbury and his formation of the Whig Party during the Exclusion Crisis. In 1679, Shaftesbury proposed a drastic revision of England's voting law. He wanted to scrap the traditional "40 schilling freehold" requirement in favor of restricting the vote to property holders of 200 pounds or more. This doesn't sound very Leveller-like; but, as Ashcraft assures us, this proposal (later abandoned) was designed to combat "the bribery of voters being practiced by the Court's supporters." Maybe so, but it still doesn't sound very Leveller-like.

The conduct of Shaftesbury's party during the Exclusion Crisis is what most disturbs me about Ashcraft's case for a Leveller connection. The Exclusion Crisis came on the heels of a tragic episode known as the "Popish Plot." This fictitious conspiracy, hatched from the fetid brain of the renegade clergyman Titus Oates, led to the execution of 35 Catholics, including Oliver Plunket, primate of Ireland.

The Popish Plot created a rabid anti-Catholic hysteria (even by English standards) and spread panic throughout England. Shaftesbury (and presumably Locke) exploited this sordid affair for political advantage and rode the anti-Catholic bandwagon into the Exclusion Crisis. This may be the real reason Shaftesbury solicited political support from the lower classes. Indeed, as Ashcraft points out, members of the Green Ribbon Club organized spectacular pope-burning demonstrations—a popular form of protest among those who associated Catholicism with absolute government and the policies of France.

The conduct of Shaftesbury's party during the Exclusion Crisis is what most disturbs me about Ashcraft's case for a Leveller connection.

In any case, Locke remained a firm opponent of toleration for Catholics (as we see in his *Letter Concerning Toleration*). Here we have a direct conflict with the Levellers, who called for *complete* toleration (though they wished to exclude Catholics from holding public office).

Ashcraft's case for a Locke-Leveller connection is intriguing and suggestive, but more research is needed to make it wholly convincing. In any case, this theme constitutes but a small part of *Revolutionary Politics*. Every serious student of Locke should study this magnificent book carefully. It is packed with fresh insights that cry out for further exploration.

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