

IF A PURE MARKET ECONOMY IS SO GOOD, WHY DOESN'T IT EXIST? THE IMPORTANCE OF CHANGING PREFERENCES VERSUS INCENTIVES IN SOCIAL CHANGE

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ABSTRACT: Many economists argue that a pure market economy cannot come about because people will always have incentives to use coercion (Cowen and Sutter, 2005; Holcombe, 2004). We maintain that these economists leave out an important factor in social change. Change can come about by altering incentives or preferences, but since most neoclassical economists ignore changing preferences, they too quickly conclude that change is impossible. History shows that social change based on changes in preferences is common. By recognizing that preferences need not be constant, political economists can say much more about changing the world.

KEYWORDS: public opinion, public choice, anarchy, social change

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INTRODUCTION

If a pure market economy is so good, why does it not already exist? If governments are so bad, why are they dominant throughout the world today? Indeed, is the widespread adoption of free markets ever likely to occur? Many recent authors, including Cowen (1992, 1994), Cowen and Sutter (1999, 2005), Holcombe (2004, 2005, 2007), and Rutten (1999) question the feasibility of a pure libertarian society.¹ They maintain that such a system cannot arise or persist because some people will always have both the incentive and the ability to use force against others. These authors offer several reasons why, even if society starts out in a perfect libertarian world without any states (as Rothbard [1996] and others advocate), competing groups will eventually form a coercive government. If we are lucky, this will be not too dissimilar from what we have today, but it could be even worse. Government may not be just or desirable, but “government is inevitable” (Holcombe, 2004, p. 333).² While these objections have been aimed specifically at radical libertarian ideas, they apply more broadly and are relevant to the general issue of social change.

We believe that the neoclassical framework of most of these authors, particularly Holcombe, Cowen, and Sutter, causes them to overlook perhaps the most important driving force for social change. When analyzing why people make choices, economists distinguish between people’s preferences and people’s incentives. Yet, when considering ways to alter behavior, almost all economists limit their focus exclusively to incentives. Changing preferences is ignored as an option in the strict neoclassical point of view (Rothbard, 1956). This limited framework is found among neoclassical economists across the board, from advocates of radical change, such as David Friedman (1989), to accepters of the status quo, such as George Stigler (1982). A large part of the agenda of normative public choice and constitutional economics is to build

¹ For an overview of a pure libertarian or state-free economy, see Rothbard (1996) and Stringham (2007).

² Rothbard (1996, p. 70) noted that “It is also particularly important for the State to make its rule seem as *inevitable*: even if its reign is disliked, as it often is, it will be met with the passive resignation expressed in the familiar coupling of ‘death and taxes.’”

“knave-proof institutions” that are immune to people acting as the “opportunistically rational economic man” (Kliemt, 2004, p. 235).³

Although most neoclassical economists are willing to discuss changing incentives through constraints, we believe that changing incentives is not the only way to alter people’s behavior, and it may not always be the easiest way. Consider the government campaign against smoking. Not only does the government attempt to change incentives with increased taxes, but it also attempts to change preferences by convincing people that smoking is not a good thing. As advocates of a *laissez-faire* society, we hardly endorse this government campaign, but it illustrates how advocates of change focus on incentives *and* preferences rather than incentives alone. Libertarians who oppose taxes on cigarettes but who also wish fewer people to smoke readily recognize that they must rely on educational campaigns aimed at the preferences of smokers.⁴

³ In addition to the public choice economists, others who seek ways to constrain political institutions include Hardin (1999), North (1990), and Weingast (1995). Our approach is more fundamental, because we question whether constitutional rules or political structures can significantly constrain government. As Tullock (1987, p. 317) writes, “The view that the government can be bound by specific provisions is naïve. Something must enforce those provisions, and whatever it is that enforces them is itself unbound.” For more on this, see Farrant (2004). We argue that the ultimate and the only binding constraint on government is ideology: that is, the preferences of the public.

⁴ A neoclassical economist analyzing the campaign against smoking could attempt salvage the assumption of constant preferences by relying on Becker’s (1965) discussion of “Z-goods.” Cigarettes, instead of being treated as a final consumer good (X-good), could be analyzed as an input for what Becker calls Z-goods, which require other goods for a household to produce. A meal, for example, is a Z-good that requires various food ingredients (Ekelund, Hébert, and Tollison, 2006, p. 55). If we assume that smokers have imperfect information about the effects of smoking, we could analyze anti-smoking advertisements as simply providing additional information about the true costs of cigarette smoking, one of multiple inputs in the Z-good of relaxation. In this case, the change in behavior does not result from any change in preferences. Similarly, one could analyze libertarianism as one input to the Z-good of living a good life. Thus, informing people about the benefits and costs of markets versus government simply helps them see the true costs of the input goods. At the extreme, this neoclassical framework rules out all preference changes by defining the individual’s utility function as constant. While an intriguing philosophical ploy, we find this tautological definition of utility even less helpful in understanding the real world than the tautological definition of self-interest that encompasses any action, no matter how seemingly altruistic. (Furthermore, the claim that consumers do not know what is best

Moreover, even if political economists want to change people's incentives, to do this they need to change policy or institutions, and they can only do that by first changing people's preferences about institutions. Unless one simplistically reduces all of history to a deterministic model in which all institutional change results solely from changes in external constraints (for instance, Greif, 2006, and with greater sophistication and scope, North, Wallis, and Weingast, 2009), political economists must look at preferences to explain social change. Holcombe, Cowen, and Sutter evade any consideration of ideology and other factors that may affect preferences, but we believe that social change without changes in preferences is rare. The notion that you can change policy without changing preferences is an illusion. History provides many examples where preferences of enough people changed so the result was significant changes in policy. By eliminating this analytical straightjacket imposed by neoclassical economics, economists could have a lot more to offer about how to improve the world. We are not arguing that libertarianism requires convincing 100 percent of people to support a free society. Instead, following Rothbard (1989) we argue that libertarianism (or for that matter any system) requires the support of a certain critical mass. When enough people support a free society and withdraw their support from governments, the ability of would-be predators to create government is diminished.

This article proceeds as follows: Section 2 discusses why authors such as Holcombe, Cowen, and Sutter hold their pessimistic view, Section 3 discusses reasons why political economists can be less pessimistic if they are open to changing preferences, Section 4 provides some historical examples in which advocates of social change successfully changed preferences, Section 5 discusses some unanswered questions for advocates of laissez-faire, and Section 6 concludes the paper.

for them contradicts the strict neoclassical assumption of perfect information.) We prefer to rely on the wording of everyday language. In any case, relabeling a preference change as improved information that changes incentives does not diminish the power of our argument. There remains a distinction, however you label it, between directly altering the consequences of an action and altering an individual's perception of the consequences. Neoclassical economists almost invariably confine their analysis to the direct approach.

THE ARGUMENT FOR PESSIMISM

Why might one adopt a pessimistic view about the possibility of social change toward a pure market economy? Reasons differ, but let us focus on the pessimism of two classical liberal economists who have published a series of articles on this topic. Cowen and Sutter (2005) is the latest contribution to a string of papers related to the viability of a state-free society. Much of their reasoning applies to more limited free markets as well. The initial arguments for pessimism are in Cowen (1992, 1994), which maintain that, without a government monopoly over the use of force, competing groups that can cooperate to resolve disputes also can collude to exercise coercion. Cowen and Sutter (1999) follows up with the more general claim that the very factors, such as cooperation, that might make a libertarian society possible also can make government likely. Cowen and Sutter (2005, p. 109) summarize:

If civil society can use norms to enforce cooperative solutions, that same society will be prone to certain kinds of cartels. In other words, cooperation-enhancing social features will bring bad outcomes as well as good outcomes. To provide a simple example, the Nazis relied on cooperation in addition to their obvious coercive elements in perpetrating their crimes. The ability to organize therefore is a mixed blessing.

The Nazi example should have alerted Cowen and Sutter to the crucial role of ideology. Instead they conclude that a libertarian society is unlikely to survive because of a “paradox of cooperation.” Some people will be able to cooperate enough to threaten others with government or private force. Cowen and Sutter consider this problem a virtually unavoidable feature of a stateless society.

Some authors have questioned Cowen and Sutter’s claims about network industries facilitating cartels,⁵ but the authors (2005) reply that cartels are possible in network industries that use force. They argue that even if most people were peaceful, more powerful

⁵ Friedman (1994) responded to Cowen’s initial article, while Caplan and Stringham (2003) responded to Cowen and Sutter’s (1999) later paper. Caplan and Stringham point out that just because people can cooperate on certain margins does not mean that they can collude on all margins. For example, banks can coordinate to make their charge cards acceptable to other banks, but they would have a much more difficult time colluding to set interest rates.

groups could threaten others, who would have little choice but to back down. They represent this scenario using simple game theory. Although victims would be best off not being victimized at all, victims are better off being victimized without retaliating, rather than fighting back, because confrontations are costly. This is likely why most people pay the mugger or the tax collector even though they would prefer not to; losing one's cash is better than prompting a confrontation and potentially losing one's life.

As evidence that some will always threaten while others will always back down, Cowen and Sutter (2005, p. 113) point to the existence of governments around the globe: "We must take seriously the fact that governments exist all around the world, for better or worse.... History shows that 'cooperating to coerce' is relatively easy to establish, regardless of the exact path to that final state of affairs." This position is similar to that of authors writing in the public-choice tradition, including Holcombe (2004) and Rutten (1999), who argue that some form of coercion will necessarily persist.⁶ In no uncertain terms, Holcombe (2004, p. 326) writes, "Without government—or even with a weak government—predatory groups will impose themselves on people by force and create a government to extract income and wealth from these subjects," concluding that "government is inevitable." In a similar vein, Cowen (1992, p. 261, 252) writes, "Orderly anarchy again implies collusive anarchy," stating, "libertarian ideology does not provide a safeguard against the emergence of government."

Most recently Cowen (2007) has coined what he calls the "Paradox of Libertarianism," which essentially maintains that libertarian success may have contributed to bigger government. Changes in government policy in the last few decades have moved in a libertarian direction, causing "much greater wealth and much greater liberty," which, ironically, has increased public demand for government.⁷

⁶ For an overview of the public-choice arguments about anarchy, see Stringham (2005). For responses to Holcombe (2004), see Leeson and Stringham (2005), Block (2005), and Holcombe (2005, 2007).

⁷ Cowen does not specify whether the resulting growth of government is merely on a per capita basis or as a percent of total output, and perhaps it is unfair of us to expect too much rigor from an on-line popular comment. But in a growing economy, the size of government can increase per capita while still declining relative to the economy's size. If on the other hand, Cowen is resurrecting the

For all these authors, libertarians are at an impasse. Even if people recognize that markets are good and coercion is bad, some will always attempt to use coercive government because it will be in their interest to do so. These critics might be called the pessimistic admirers of libertarianism. Libertarian ideals are nice, but they are impossible in practice.

THE ARGUMENT AGAINST PESSIMISM

Forgive us for favorably quoting a politician and a general, but as Dwight D. Eisenhower said, “Pessimism never won any battle.” Just because libertarianism has not fully triumphed anywhere in the world today does not mean that striving for it is futile. Cowen and Sutter’s analysis notably leaves out the importance of ideology and public opinion as constraints on government. Within certain narrow assumptions, Cowen and Sutter’s (2005) and Cowen’s (2007) analyses all but guarantee the existence of government. In Cowen and Sutter (2005) the payoffs of using coercion are positive because there are no external constraints, and in Cowen (2007) government becomes more popular as income increases. But if the assumptions are different, the predicted payoffs are different, and the “inevitability” of statism becomes “inevitable” only under certain conditions.

This problem is starkest in Cowen’s most recent article (2007), in which he takes current political opinion as fixed and assumes that the majority considers government a normal good like so many others. In the current world this may be true. But suppose that advocates of free-markets are correct that markets are more civil and humane (Roepke, 1960) and that the more sophisticated or cultured point of view is to support liberty over coercion. This is an open question, but as people’s incomes increase and they become more educated, they might be more likely to become less statist (Caplan, 2001a). Under these circumstances, statism would not be a normal good, but an inferior good.

tired, twentieth-century progressive claim that government *must* grow as a percent of GDP as the economy gets bigger and more complex, his claim seems to be empirically doubtful in the United States, at least when looking at secular trends for the period to which he refers, namely the last several decades.

Or consider Cowen and Sutter's (2005) assumption about the positive payoffs of coercion. In the current world, one need not look further than the many rich government officials around the globe to see the truth in this. But the payoffs themselves are at least partly a function of institutions and hardly constant for all time. Altering the institutions can alter the level and even the ranking of the payoffs. Furthermore, the level of the payoffs is not the only relevant consideration, in light of the subjective nature of people's preferences. The subjective ranking of payoffs can change with preferences. Suppose that some external, ideological constraints, embedded in a widely recognized legal code, were placed on coercion. If these constraints were important enough, even would-be opportunists would decline to use coercion.

Cowen and Sutter might answer that by assuming no government they have already specified the relevant institutional constraints. But the varied legal regimes that stateless societies have exhibited throughout history belie this claim. Cowen (1992, p. 251) initially dismissed "[r]eliance upon libertarian ideology alone to defend the survival of anarchy" as a "*deus ex machina*." But Cowen and Sutter (1999, p. 165) admit that "[c]ooperative efficacy relates only to the ability of a community to engage in collective action; *the selection of projects* to pursue is a separate question [emphasis ours]." In other words, people conceivably can cooperate to achieve public goods or public bads. The Nazis sought public bads, but this result is not universal. What factors influence a society's mix of public goods and bads? According to Cowen and Sutter, this "separate question" is decided by "community leaders and public officials" based on which projects "suit their own interests." Yet then what determines their interests? Here we are back again implicitly at institutions and ideology, unless Cowen and Sutter want to replace ideology with the *deus ex machina* of the preferences of leaders and officials.

Another striking example of how ideology implicitly enters the analysis of neoclassical economists, despite their best efforts to keep it out, comes from a critic of Cowen. Friedman (1989, p. 117), in his classic brief for anarchism, projects a poly-legal order in which competing private courts and police enforce different codes of law that compete like "brands of cars." These legal codes need not be libertarian, in Friedman's view, although he argues that

unlibertarian law will be more expensive to enforce than libertarian law. Therefore, self-interest will tend to drive poly-legal anarchism toward libertarian outcomes. But notice that Friedman's private courts and police do obey at least one universal law, despite his failure to acknowledge as much. None of them collects taxes. Otherwise, his system collapses into the international anarchy we observe in the world today. How could such a uniform constraint against taxation arise except through a widely held ideological aversion to taxation?

Could preferences ever change so that people demand less statism or more constraints on government? If one adopts the narrow neoclassical public choice assumptions of Cowen and Sutter, the answer is likely to be "no," as preferences are static in strict neoclassical models. But this position overlooks two important facts about the world, namely that public opinion *often* changes, and public opinion *does* matter. Caplan and Stringham (2005) contrast the mainstream public-choice view that interests rule the world with the views of Ludwig von Mises and Frederic Bastiat, who believe that ideas rule the world. According to the Mises-Bastiat view, governments are able to get away with as much as they do only because they have the support of enough people. Bad policies persist only because the median voter prefers them (Caplan and Stringham, 2005).⁸

But the current demand for bad policies does not imply their inevitability any more than the current demand for Ford automobiles implies that Ford will forever retain its current market share. If people's preferences can be changed, then big government is not necessarily something people will always demand. This is important because if enough people withdraw their support for

⁸ Caplan (2007) argues that people are more likely to demand more economically "irrational" or counterproductive policies when the marginal cost is low. Working within the framework of his model, one could reduce the quantity of irrational policies demanded in two ways. The first is by altering constraints to increase the personal marginal cost of people demanding irrational policies. Altering incentives in this way would be a movement along the demand curve for irrational policies. But a second way to decrease the number of irrational policies demanded would be to bring about a shift in the demand curve for irrational policies. Caplan's (2001a, b) analysis would suggest that since more educated people are more likely to think like economists, increasing education is an important way to change political economic beliefs.

various big government policies, then the state will have a difficult time imposing its policies on the unwilling masses. As Rothbard (1989), Hummel (1990, 2001) and others have argued, government officials get away with as much as people let them.

Herein lies the key to changing society: changing public opinion or people's preferences toward government. And the only way people are likely to change their preferences is through education and persuasion; force is ineffective. This is why libertarian economists of different stripes believe that economic education plays such a crucial role. Most people in the general public support various government policies because they truly believe that government needs to solve social problems. Only infrequently do they consider the possibilities that government may be the cause of problems or making problems worse (Higgs, 2004, 2007). Nor do they consider the possibility that voluntary action may be capable of solving many so-called market failures.

If free markets can do wonders, as libertarian economists believe (Rothbard, 1996), then there is no inherent reason that the public needs to forever demand or even tolerate the state. Bastiat (1964) maintains that the general public has been sold a bill of goods. The general public has been persuaded to believe in the necessity of government intervention in many areas. Yet, if free-market economists had their way, the public would believe and behave otherwise. When a problem arose, the public would not immediately turn to the state to solve it. When the state tried to take on new roles, people would balk. A small group of people might try to use force to impose their will on the public, but without general support or general acceptance by the public, that minority would have a difficult time getting its way (Rothbard, 1990, p. 47). As Rothbard (1996, p. 72) wrote, "The emperor's clothes of supposed altruistic concern for the common weal would then be stripped from him."

At one level, our argument seems obviously true. As one of our colleagues associated with the *Review of Austrian Economics* wrote to us: "the central thesis of the paper is that libertarian anarchy will prevail where everyone is a libertarian anarchist. This point is uncontroversial." Yet, as we have demonstrated, the point is indeed controversial. The objections of those who question the attainability or stability of a state-free society (as opposed to its desirability) all rest on an explicit or implicit rejection of the truism

that ideas have consequences. It is likely that every society will always have some people who want to use force. But we believe that people can only get away with force on a large scale if they have the support of enough people. Without widespread support, the ability to create governments is diminished.

If those who think a libertarian society is unattainable truly abandon the notion of preferences being *fixed* forever, their only alternative is to invoke the public goods problem, or one of its many other variants, such as the prisoner's dilemma or path dependency. Such problems allegedly prevent changes in people's ideas from having strong impacts on the political outcome. But this raises an across-the-board objection to all sorts of improvements in policy. Yet history is littered with examples in which public-spirited mass movements overcame free-rider incentives to achieve significant gains against state power, and section 4 of this article will mention just a few. Nobel Laureate Douglass C. North has observed that "casual observation . . . confirms the immense number of cases where large group action does occur and is a fundamental force for change" (North, 1981, pp. 10–11). Once one recognizes that people do not always behave in a narrowly self-interested manner; that they are sometimes (if not always) capable of ideological altruism or otherwise working to achieve goals whose material rewards will not fully compensate them for their efforts; that in a word, preferences are indeed *flexible*, then the power of ideas becomes paramount, as Hummel (1987, 1990, 2001), Caplan and Stringham (2005), Higgs (1987, 2004, 2007), and North (1981, 1990) have all pointed out at length.

Thus, the ultimate factor in this world view is public opinion. The more people adopt a culture of enterprise, the more able a system of free markets is to come about. Is the world where most people support a pure market economy inevitable, as Fukuyama (1992) implies in his argument for the inevitability of liberal democracy? We do not believe that any world is inevitable, but we believe that changing preferences to support a pure market economy is certainly possible. Let us consider some possible reasons for this.

HISTORICAL EXAMPLES OF CHANGING PREFERENCES LEADING TO SOCIAL CHANGE

The pessimistic view implies that the world will be fraught with problems no matter what happens. Although the world certainly has had and continues to have many problems, the pessimistic view overlooks some major examples of important change. In this section we discuss some historical examples that provide empirical support for our hypothesis of changing preferences leading to social change. None of these examples entail a complete shift toward a libertarian society; in fact, it is possible to debate whether the changes were in the direction of a libertarian society at all. Nor do they require that preference shifts be entirely unaffected or unconstrained by the prevailing political and social context. However, all of the examples show how major shifts in preferences can lead to major shifts in policy. Bringing about a pure market economy would require major changes in public opinion, but the fact that public opinion has shifted so much in the past may indicate that a movement toward libertarian beliefs is possible.

Perhaps one of the most stunning historical changes to result from an underlying ideological change in people's preferences was the abolition of chattel slavery. Slavery had been a source of forced labor since the dawn of civilization. People had owned slaves on every continent and for every conceivable task. Slavery, along with such other forms of unfree or quasi-free labor as serfdom, debt bondage, involuntary apprenticeship, and indentured servitude, was the unenviable status of most humans prior to the Industrial Revolution. Although no one liked being a slave, the institution was universally accepted as inevitable if not desirable until the first stirrings of antislavery fervor emerged in the late eighteenth century. Today, in contrast, we live in a world where the freedom to quit a job at will has become the accepted standard. Slavery may still persist clandestinely, but no ruler, no matter how vile or ruthless, would dare get up and publicly endorse owning another human being.

The abolitionist movement, despite beginning as a minuscule minority in most countries, eliminated in a little over a century a labor system that had been ubiquitous for millennia. The British Parliament, for instance, abolished the slave trade in 1807 and ended slavery itself in the colonies a quarter-century later. These

events occurred at a time when slave labor was still providing enormous economic benefits not only to certain special interests, but to all British consumers. The nineteenth-century English historian W. E. H. Lecky (1897, p. 153) concluded that the “unweary, unostentatious, and inglorious crusade of England against slavery may probably be regarded as among the three or four perfectly virtuous pages comprised in the history of nations,” and modern scholarship has generally confirmed this evaluation, at least with respect to British antislavery. The abolition of chattel slavery thus stands as the most impressive and enduring of all of classical liberalism’s triumphs.

The antislavery movement itself had its origins in another major ideological transformation: the American Revolution. As John Adams (1856, pp. 172, 197, 285) reminisced in a series of letters many years afterward: “What do we mean by the revolution? The war? That was no part of the revolution; it was only an effect and consequence of it. ... [T]he revolution was complete, in the minds of the people, ... before the war commenced in the skirmishes of Concord and Lexington on the 19th of April, 1775.... *This radical change in the principles, opinions, sentiments, and affections of the people, was the real American Revolution*” [emphasis original]. Admittedly, the revolution mobilized special interests that would benefit from severing any political connection with Great Britain, but it also prompted drastic improvements in public policy. These included the disestablishment of state churches in the South, the gradual emancipation of slaves or outright abolition of slavery in the North, the establishment everywhere of republican governments under written state constitutions with limitations on power embodied in bills of rights, and the extirpation of the last remnants of feudalism—quit-rents, entail, and primogeniture—where they still remained. Moreover, the revolution set off a cascade of ideological externalities that had worldwide impacts.

Other examples that might be mentioned include the successful campaign of Richard Cobden and John Bright to repeal Britain’s protectionist corn laws in 1846, within a century of Adam Smith having expressed pessimism about such an outcome; the final termination of British rule in India in 1947, after three decades of mostly non-violent civil disobedience inspired by Mahatma Gandhi; and the nearly peaceful collapse between 1989 and 1991

of Communist dictatorships throughout the Soviet Union and eastern Europe, which are among the bloodiest and most tyrannical regimes in recent history. None of these changes ushered in free-market utopias, and historians will long debate the relative weights of their ultimate causes. But to deny that seismic ideological shifts in people's preferences played a major role would be to remain willfully blind. As North (1981, pp. 10–11) has emphasized, "[t]he economic historian who has constructed his model in neoclassical terms has built into it a fundamental contradiction since there is no way for the neoclassical model to account for a good deal of the change we observe in history."

One economic historian who does not shortchange the way ideology can influence people's preferences is Robert Higgs. His classic study of the growth of American government, *Crisis and Leviathan* (1987), contains an instructive contrast between the Depression of 1893 and the Great Depression of 1929. Because of the waning but still dominant classical-liberal ideology, the depression of 1893 was a crisis that witnessed almost no significant increases in central power during the administration of President Grover Cleveland. It was the subsequent ideological triumph of progressivism in the United States that laid the foundations for the huge expansion in government's role during the new deals of Presidents Herbert Hoover and Franklin D. Roosevelt. Indeed, Higgs's contrast is more encompassing than he suggests. The general rule during the nineteenth century, both in the United States and Britain, was for economic downturns to occasion government retrenchment rather than expansion. What eventually transformed depressions and recessions into excuses for new and more extensive government intervention were the emerging statist ideologies of the twentieth century.

One need merely compare the modern worldview in its myriad ideological manifestations with the medieval or ancient worldviews to appreciate how drastically and fundamentally people's ideas can alter. Current political ideologies, including libertarianism, classical liberalism, modern conservatism, democratic socialism, and communism, all at least pay lip service to some kind of human equality, whether equal rights, equal opportunity, equal income, or something else. All of them explicitly reject the society of rigidly hierarchical status that was considered axiomatically desirable

in the medieval and ancient worlds. In light of all the varied and bizarre beliefs, usually incorrect and often pernicious, that have informed human communities throughout the past, is it inconceivable that the far more sensible views of libertarianism might someday become widely accepted?

IMPLICATIONS FOR ADVOCATES OF LIBERTY

These historical examples of major changes of public opinion show that one should not hold preferences constant in analyses of long-term social change. Public opinion both matters and can change. Research indicates that changes in preferences regarding economic freedom translate into actual changes in economic freedom (Crampton, 2002). Exactly what influences public opinion or what would be necessary to convince the general public to embrace a pure market economy are much more difficult questions.

Some classical liberals, such as F.A. Hayek (1949), are influenced by Pareto, who argued that change occurs with the circulation of elites. Leaders follow the elites, so this perspective suggests that influencing the minds of the elites through education is of utmost importance (Grinder and Hagel, 1977, pp. 67–72). Other libertarians, such as Rothbard, support this policy (which he calls educationism), but Rothbard's unpublished 1977 manuscript, *Toward A Strategy For Libertarian Social Change*, outlines how social change requires a multi-tiered movement. He sketches a pyramid of ideology in which the people at the top are those with a greater commitment to libertarianism. Someone's station in the pyramid of change is not fixed, nor is the number of seats higher up limited. Rothbard writes that the goal of the most committed libertarians "is to try to get as many people as high up the pyramid as possible." Rothbard (1989) sketches out other strategic visions for liberty. But, as Rothbard (1990, p. 65) writes, "While Marxists devote about 90 percent of their energies to thinking about strategy and only 10 percent to their basic theories, for libertarians the reverse is true."

Rothbard was also acutely aware of how changes in people's ideas could be instigated or accelerated by outside events, as aptly captured in the Marxist distinction between the "objective conditions" and "subjective conditions" for victory. Higgs—whose classic study of how crises have driven increases in government

power we have already mentioned—has explored in a more recent work the complex interaction between event-driven and theory-driven ideological change (Higgs, 2007, particularly pp. 65–80, 177–90). We have no wish to ignore these complicated and intriguing ideological feedbacks. Not only do they undoubtedly play an important role in the contours of ideological evolution, but they also imply that, given the proper subjective conditions, an objective crisis can lead to a retreat of state power rather than an increase, as the demise of the Soviet Union attests. Nonetheless, the obvious fact that events beyond anyone's control affect people's preferences, and do so in ways not fully understood, should no more inevitably lead libertarians to strategic pessimism than it leads business people to abandon all marketing and advertising.

One open question is the number of people needed to prefer something before it can come about. Similarly, how many people need to remain convinced of something for it to persist? In a state-free world, if 99.9 percent of the public suddenly rejected markets, then some form of statism would be likely. But will a free society break down if 0.1 percent of the public rejects markets? It is certainly possible,⁹ but the more robust the system is, the better. Boettke (2000) argues that a free society is more robust to deviations than other systems, such as socialism, which can very easily break down. Similarly, Taylor (2008) uses this line of reasoning to ask how robust anarchy is to meddling preferences (when people prefer interfering in other people's lives) and concludes that anarchy is more robust than systems involving democracy. Ultimately, a system depends on the relative intensities of pro- and anti-market people and their willingness to act on these beliefs. In a world where 99.9 percent of the population is apolitical and not significantly violent, a libertarian society could come about with less than 0.1 percent of society even being aware of libertarian writings. But if the non-libertarians are biased against libertarianism, then a greater number of people will need to be persuaded to prefer libertarian ideals (Caplan, 2001a, p. 561).

⁹ This could happen if those opposed were able to wreak enough havoc, such as with nuclear weapons. Of course this is a potential problem for all political economic systems.

And what is the best way to change preferences on such a large scale? This, too is an unanswered question. Advocates of reform may know what they prefer, but their ideas about how to get them in place are much less well developed. North (1990, p. 86) discusses how institutional change is affected by “ideas, dogmas, fads, and ideologies,” but “improved understanding of institutional change requires greater understanding than we now possess of just what makes ideas and ideologies catch hold.” Young (1998, p. 147) argues that institutional change only occurs when people update their expectations of what they think others will do. Exactly how this happens is not always clear.¹⁰

If advocates of *laissez-faire* knew how to convince people to support *laissez-faire*, they would have accomplished it already. But just because nobody knows the answer right now does not mean that pursuing that question is a bad idea. Convincing people to prefer *laissez-faire* might require a lot more scholarship and a lot more time. Or, convincing people to prefer *laissez-faire* might simply require better marketing. Television and movie producers, advertisers, and political campaigns spend a lot of resources attempting to measure how audiences react to their product or message. Libertarians, on the other hand, have spent most of their efforts on content development and very little on marketing. Perhaps libertarian political economists could learn from marketing, psychology, or religion how best to convince others.

We believe that the spread of religion is particularly illustrative. The United States has no official religion, yet Americans are more religious than people of most other countries, with more than 80 percent of Americans identifying with a religious group (Kosmin and Keysar, 2006). Just a few centuries ago most advocates of state religion would have deemed this impossible. Are libertarian ideas really more inherently difficult to grasp than the religious theologies that have moved millions? It is admittedly unrealistic to expect the general public to appreciate all the ins and outs of every sophisticated application of libertarian theory. But to anticipate a future society in which most of the population professes to be libertarians, in the same way that most Americans today profess

¹⁰ For an attempt to create an economic framework for thinking about institutional change and possible ways it might come about see Aoki (2001).

to believe in democracy, or that most Americans profess to be Christians without having a detailed knowledge of all aspects of Christian apologetics, is surely not unreasonable. And when such a day arrives, it will not only profoundly affect institutions, but it will also significantly constrain the range of political outcomes that are considered legitimate and that are capable of attainment, just as Mises and Bastiat insisted.

CONCLUSION

Advocates of laissez-faire should recognize that preferences about government both matter and can change. Once one recognizes this fact, then the realm of feasible policies increases. Even if the public has demanded more government in recent years, that demand need not always persist. Pointing to examples in which parties can gain by using coercion in the absence of ideological constraints against doing so does not prove that such coercion will always be the equilibrium outcome. One of the most important roles of laissez-faire economists is to make the case that the state is not needed to solve (or is even capable of solving) the world's woes. Many of the arguments against free markets are nothing more than what Bastiat (1964) would call economic sophisms. As people withdraw their support from any given set of policies, the likelihood that those policies can be imposed on an unwilling public will decrease.

If the general public has confidence in markets and resists government or any other coercive entity, a libertarian world becomes possible. Although we do not live in such a world, bringing it about need not require human nature to undergo a fundamental transformation into some new capitalist man. Most people have affinities to private property and market exchange as well as respect for individuals. But most people also have been taught that government is the only way to solve certain problems, so they are willing to make an exception to their moral precepts when it comes to the state. The good news is that bringing about a libertarian ideology would not require large positive obligations from most people; it simply requires people to *stop* believing misinformation. Is this likely in the short run? Probably not. But in the long run, if people stop believing that government is

necessary or desirable, then the demand for the state will shrink. As people become less accepting of the state, we will be closer to the libertarian ideal.

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