

Taking Notes from the Social Science of Underground Society.

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Readers of Freedom's Phoenix, Agorists, Voluntaryists and libertarian activists of all sorts should read closely research in economic history and comparative political economy. Austrian, Public Choice and New Institutional economists have been in recent years investigating historical cases of statelessness and quasi-statelessness with impressive theoretical results.

Elinor Ostrom's 2009 receipt of the Nobel Prize in economics implies how much these perspectives can contribute to our broader understanding of political economy. Before we can hope to understand or prescribe the proper role of government, we should first know and comprehend the full potential and limitations of voluntary interaction.

Ostrom's research was largely a reaction to what she perceived as a theoretical and practical failure within the mainstream profession. Economists frequently wax poetic about how much institutions matter. Good institutions, such as private property rights, sound money and just legal systems, lead to social cooperation, low violence and high economic growth. But the dismal success records of state building and foreign aid have caused critical researchers to ask if the profession really knows where good institutions come from or how they develop.

Elinor first challenged the field of urban planning. Much like the market socialists of the soviet calculation debates, these theorists presumed that centralization was synonymous with efficiency. The infrastructure networks of American cities were historically interconnected, in this superfluity they were thought inefficient. Services like drinking water, electricity, sewage and roadways across townships often overlap, hence decision-making authority is sometimes ambiguous. More vertically oriented hierarchy and centralized management were the presumed solutions.

In the real world, different locations pose unique logistic challenges for providing public goods. Effective production functions require local knowledge. One-size-fits-all solutions cannot replicate the functionally adaptive patterns of institutional diversity. While imperfect or missing property rights may be a sub-optimal condition, it does not follow that government guarantees a preferable solution.

The broader field of political economy must take a significant step back from its current debates. We should stop asking, what is the proper role of government, as though the answer were a quantifiable magnitude. We must begin to ask more fundamentally, what are the general conditions that lead to voluntary social cooperation and advancements in the division of labor. How can these general

conditions be accomplished given the unique challenges of various historical, geographic and cultural constraints?

Given the sober reality that government is no guarantee for social order, Ostrom's research project was observational as opposed to deductive or predictive. If one wants to know how people can overcome commons problems, than she should simply begin to look at how various communities actually accomplish such tasks in different ways. Sure enough, Ostrom has catalogued a variety of communities wherein individuals and groups have ingeniously created and implemented rules and enforcements that function well to maintain the qualities and quantities of their unique social spaces.

The framework of Ostrom's research project has broader applicability. The commons problem is in essence no different an incentive arrangement than the prisoner's dilemma - the most popular of all game theory models precisely because it represents the fundamental challenge of social interaction. A fusion of Hobbes and Smith: in the state of nature individuals are more inclined to rape, pillage and plunder than they are to truck, barter and exchange. Creating good institutions is a matter of encouraging peace and discouraging plunder - but how?

Studying stateless environments allows social scientists to challenge the presumed necessity of government at its core. An exogenously provided monopoly on violence is a necessary and effective strategy for solving prisoner's dilemmas and promoting social cooperation.

Without a historical case of statelessness with large, heterogeneous and economically advanced populations, several scholars have found researching organized crime, underground economies and prison communities sufficiently revealing. Peter Leeson for one has argued that it is precisely the fact that pirates and outlaws are deemed criminal and outside the protection of government law, that drives them to create and implement functional institutions. By their very nature of dealing in illicit markets, criminal agents must learn to enforce contracts and minimize conflict without the state.

One of the key implications from stateless research is that what is good about underground institutions - their tendencies to maximize profits and adapt their capital structures to unique environments - are more the result of voluntary action than they are dependent upon the shadow of state government. Criminal societies have invented secret languages, complex forms of lending markets and self-enforcing contracts precisely because they have no recourse to utilize government law enforcement.

Stateless research also implies that the unsavory elements of underground societies are often the result of coping with nearby governments more than they are the consequence of insufficient state control. Violence, transience and exclusion are

contextually rational strategies given the risks and uncertainty imposed by regulation, intervention, prohibition, predation and oppression.

I do not suggest that libertarians should adopt similar institutions as underground or criminal societies. Instead I mean to suggest that those libertarian activists seeking their own liberties as well as general social change would do well by looking closely at the processes that such social contexts undergo. Mainstream economists often presume the prerequisite institutions for trade are given. Once, property rights, a sound monetary system and a just rule of law are in place, then capital tends to flow to its most highly valued use, markets tend to clear and prices equilibrate. When these latter effects are in disarray, economists are left bewildered. Today's economic and social maladies are but an example of this intellectual failure.

In this vein, outlaws have a leg up compared to economists. Pirates, mafia members, drug dealers and prison inmates - none take the existence of functional social institutions for granted. Social order in the underground economy requires learning. Problems are improved upon. Costs are reduced. Effective strategies are benchmarked and copied. If only the institutions in our legitimate society had such open ended potential?

Suggested Readings:

Gambetta, Diego (2009). *Codes of the Underworld: How Criminals Communicate*. Princeton: Princeton University Press.

Kaminski, Marek (2010). *Games Prisoners Play: The Tragicomic World of Polish Prisons*. Princeton: Princeton University Press.

Leeson, Peter (2009). *The Invisible Hook: The Hidden Economics of Pirates*. Princeton: Princeton University Press.

Ostrom, Elinor (1990). *Governing the Commons: The evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press.

Ostrom, Elinor (2005). *Understanding Institutional Diversity*. Princeton: Princeton University Press.

Venkatesh, Sudhir (2009). *Off the Books: The Underground Economy of the Urban Poor*. Cambridge: Harvard University Press.