

# **In Defense of Liberty**

Social Order & The Role of Government

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# IN DEFENSE OF LIBERTY

SOCIAL ORDER AND THE ROLE OF GOVERNMENT

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## Abstract

This thesis seeks to address some of the most central questions to the fields of political philosophy and political economy. First, how can social order and government rationally develop out of anarchy? Next, what acts of force, if any, are morally permissible for the State to perform in its relations with individuals, so as to maintain political legitimacy? Lastly, what policies ought the State implement to achieve the best welfare outcomes for a society? This thesis will first show that a laissez-faire capitalist social order can spontaneously emerge from a purely self-interested State of Nature, with the institution of government being a mere product of market forces. Then, this thesis will defend a theory of natural rights on the basis that persons are normatively separate, before establishing that a laissez-faire capitalist social order is uniquely in compliance with these universal moral standards of conduct that predate the institution of any government. Finally, it will be argued in this thesis that the key tenets of laissez-faire capitalism - strong individual rights to life, liberty, and property - produce maximal human welfare from both individualist and collectivist aggregations, before such conclusions are translated into a foundation for limited government. Cumulatively, these arguments serve to fortify libertarian political philosophy and demonstrate that laissez-faire capitalism is the optimal form of social order.

## Introduction

In the context of political philosophy, freedom and liberty are identical terms that describe the absence of non-consensual, coercive power relations between individuals.<sup>1</sup> Despite the reliability of economic freedom in improving overall human well-being,<sup>2</sup> there is consensus that markets fail in their provision of public goods: items that, if implemented, would universally increase human welfare in a society. More technically, public goods are items characterized by their Pareto improvements, nonrivalry in competition, and nonexcludability in consumption that, when put together, induce collective action problems.<sup>3</sup> Consequently, the State's primary function is frequently conceptualized to be the coercive solution to these collective action funding problems, such that a reliable provision of public goods may be guaranteed for the rational benefit of all individuals in a society.<sup>4</sup> However, this paternalistic theory of the State may be considered problematic because it neglects the value of individual choice and opens the door to more intrusive government operations that utilize identical "greater good" justifications. Such authoritarian regimes are especially dangerous because of their normalized violence and coercion, activities which bend individual behavior to the arbitrary will of those in power without regard for consent.<sup>5</sup> Accordingly, the central question of political philosophy concerns the legitimacy of the State's conduct: what acts of force, if any, are morally permissible for the State to perform?<sup>6</sup> Though, this begs an equally important second question: how can such an

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<sup>1</sup> Friedrich. Hayek, *The Constitution of Liberty*, ed. Ronald Hamowy (University of Chicago Press, 2011), 57–72.

<sup>2</sup> Yanick Labrie and Bradley Doucet, "Economic Freedom Improves Human Well-Being", *Economic Notes*, February (2015): 1–4, [https://www.iedm.org/files/note0215\\_en.pdf](https://www.iedm.org/files/note0215_en.pdf).

<sup>3</sup> Jonathan Anomaly, "Public Goods and Government Action", *Politics, Philosophy & Economics* 14, no. 2 (2013): 109–28, <https://doi.org/10.1177/1470594x13505414>.

<sup>4</sup> David Schmidtz, *The Limits of Government: An Essay on the Public Goods Argument* (Westview Press, 1991), 1-2.

<sup>5</sup> Hayek, *The Constitution of Liberty*, 232-60.

<sup>6</sup> Robert Nozick, *Anarchy, State, and Utopia* (Basic Books, 2013), 31-2.

ethical social order even develop from anarchy to begin with? Finally, if the State can exist, what policy objective(s) ought its existence seek to accomplish so as to produce the best outcomes for a society, and does this optimal role of government necessarily conflict with political legitimacy? These are the primary questions I will address in this paper.

The Liberty Tradition is a family of normatively individualist views which commonly hold that each person is separate and legitimately possesses an exclusive claim to their own life, liberty, and property.<sup>7</sup> The tradition seeks to limit political coercion, if not entirely eliminate it, and such views can be ranked according to their tolerance of State power. The most libertarian (anti-statist) view is Anarcho-Capitalism (Market Anarchism), followed by Minarchism (Minimal Statism), concluding with Classical Liberalism (Small Statism). Anarcho-Capitalism gives absolute priority to individual rights and subsequently holds that it is not permissible for any state to legitimately exist, as the State's use of force necessarily implies the violation of individual rights.<sup>8</sup> The theory supports laissez-faire capitalism on the grounds that it produces the best outcomes, while also controversially maintaining that public goods can be achieved *competitively* in the free market. On the other hand, Classical Liberalism and Minarchism prioritize a feasible provision of public goods, reluctantly accepting benign paternalistic coercion by the State on the grounds that every individual is made significantly better off through the provision of public goods (albeit with varying views on what goods are public). To be sure, there is a philosophical tension between the use of coercion to solve collective action problems and the Liberty Tradition's emphasis on freedom. Notwithstanding, there is an unexpected compatibility between these views that serves to reconcile the apparent conflict between natural rights theory and the role of the State in providing public goods. For instance, if the State emerges as a market

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<sup>7</sup> Eric Mack and Gerald Gaus. "Classical Liberalism and Libertarianism: The Liberty Tradition" in *Handbook of Political Theory*, ed. Gerald Gaus and Chandran Kukathas (SAGE, 2004), 115–24.

<sup>8</sup> Murray Rothbard, *For A New Liberty: The Libertarian Manifesto* (Ludwig von Mises Institute, 2006), 55–86.

good and possesses property rights to the territory over which it operates, it solves the aforementioned dilemma insofar as the State's use of force to fund public goods is morally permissible when every person has explicitly consented to it through contract.

In this paper, I will argue that the optimal social order is a form of *laissez-faire* capitalism that sees the State emerge as a market good. That is also to say, a society *ought* to be organized around a free and competitive market economy that recognizes strong individual rights to life, liberty, and property. After presenting a brief overview of my argument, I will explain how it is feasible for such a social order to develop in the State of Nature, with two possible market states rationally emerging: one with territorial ownership over the land that is serviced, and one without such inherent property ownership. Then, after defending a conception of natural rights on the basis that persons are normatively separate, I will show that the envisioned *laissez-faire* capitalist social order and its corresponding market state are morally permissible, while also discussing why other social orders do not abide by such political legitimacy. Finally, I will argue that this social order produces the best outcomes on the basis that its institutions maximize human welfare, from the perspectives of both the individual and the collective alike, compared to other social orders that do not recognize strong individual rights to life, liberty, and property. Cumulatively, these arguments serve to fortify libertarian political philosophy and demonstrate that *laissez-faire* capitalism is the optimal form of social order.



## The Argument

This paper's major argument can be represented in the following premise-conclusion form:

- P1:** A social order is optimal if and only if it is feasible, morally permissible, and produces the best consequences.
- P2:** A laissez-faire capitalist social order, where the State develops as a market good, is feasible.
- P3:** A laissez-faire capitalist social order, where the State develops as a market good, is morally permissible.
- P4:** A laissez-faire capitalist social order, where the State develops as a market good, produces the best consequences.
- C:** **A laissez-faire capitalist social order, where the State develops as a market good, is optimal.**

While the last three premises will be vigorously defended in their respective sections of this paper, the first premise warrants some brief motivation and explanation.

It can be demonstrated that the three listed conditions are all individually necessary to an optimal social order by varying the presence of each condition and holding everything else constant. First, the feasibility condition is justified because it is an analytically superior conclusion when a utopia is actually possible to emerge in reality than when it exists merely as an abstraction. Then, the moral permissibility condition is necessary because a respect for ethical boundaries solely confers political legitimacy, and a legitimate social order intrinsically dominates an illegitimate social order that is otherwise identical in organization. Finally, it is a completely uncontroversial assertion to say that a social order which produces suboptimal outcomes is inferior to one that produces the best consequences, thus validating the consequentialist condition. While these criteria are distinct and cannot be conflated with one

another, an optimal social order is definitively one which can be justified as maximal from all three dimensions. Further, any other possible requirements to achieve an optimal social order are prima facie reducible or contradictory to this necessary criteria, as the three conditions abstractly represent the totality of real-world possibilities, moral constraints, and consequentialist principles that can serve as justifications for a social order.

Fundamentally, social orders are organized groups of people and can be defined by their unique sets of institutional norms and rules.<sup>9</sup> Laissez-faire capitalism, for example, is a means of social and economic organization defined by its strong recognition of individual rights to life, liberty, and property. Notwithstanding, social orders are relatively unaffected by the actions of any one particular individual within the group insofar as all defining norms of the social order remain intact. For example, if one person successfully steals a wallet in a capitalist society, the status of the social order is relatively unaffected. However, if it becomes a *socially acceptable* practice for individuals to steal the property of others without consequence, it would be appropriate to say that a capitalist social order is no longer in effect because the defining norm of property rights has been dissolved. Therefore, when evaluating social orders based on their feasibility, moral permissibility, and consequences, this thesis analyzes the institutional norms and rules that strictly *define* a particular social order, rather than any one instantiation of a social order where its institutional norms or rules are violated by individual persons.

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<sup>9</sup> Douglas North, John Wallis, and Barry Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (Cambridge University Press, 2009), 29.

## I. Emergence of Social Order

This section's argument for the feasibility of a laissez-faire capitalist social order, where the State develops as a market good, can be represented in the following premise-conclusion form:

- P1:** If a social order can rationally emerge from the State of Nature, it is feasible.
- P2:** A laissez-faire capitalist social order, where the State develops as a market good, can rationally emerge from the State of Nature.
- C:** **A laissez-faire capitalist social order, where the State develops as a market good, is feasible.**

A social order is necessarily cooperative. However, as shall be discussed, the early State of Nature is the exact opposite; a place fraught with violence, plunder, chaos, and disorder; a place where one's only ally is oneself.<sup>10</sup> Consequently, if a social order can rationally emerge from this State of Nature, it is highly feasible because such cooperation does not require individuals to act in ways that may be detrimental to their own self-interests. That is, if assuming the most egoist and antisocial behaviors in people still naturally leads to a cooperative, organized state of affairs, then the model's viability is only enhanced when those premises are relaxed, such as in genuine cases of altruism. Therefore, I will show in this section that a laissez-faire capitalist social order, where the State develops as a market good, can rationally emerge from the State of Nature; so as to also prove the feasibility of such a social order.

### The Early State of Nature

In its early stages, the State of Nature is a primitive social order where *every* interaction between individuals can be characterized as a collective action problem, rendering economic

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<sup>10</sup> Thomas Hobbes, *Leviathan*, ed. Jonathan Bennett (Jonathan Bennett, 2017), 56–9.

development and social stability impossible. Hobbes describes the State of Nature as a permanent state of war where “every man is enemy to every man” with life being “solitary, poor, nasty, brutish, and short.”<sup>11</sup> Indeed, individuals in this early State of Nature find themselves pitted against one another in strategic situations that resemble the Prisoner’s Dilemma game.<sup>12</sup> Such social scenarios see rational individuals always playing harmful strategies like initiating combat, defecting on contracts, and not contributing to cooperative activities, even while unanimous collaboration would leave each person better off than such unanimous hostility. The economic reasoning for such social disorder can be explained more intuitively in two parts.<sup>13</sup> First, an individual’s defection can protect them from loss in the case where others seek to exploit or harm them. And in the chaotic state of war that this world finds itself, this can cost an individual their labor, property, or even life. Second, for the case where others do cooperate, defection makes an individual even better off than cooperation would, as one can free-ride and reap benefits from the goodwill of others without needing to contribute anything themselves. Ironically, the rational individual fears the same harmful activity they seek to engage in, which nevertheless makes it their dominant strategy. The Nash Equilibrium of the Prisoner’s Dilemma game thus sees all players unanimously defecting, the most inefficient outcome of all.

For example, consider a hypothetical situation where two individuals agree to a contract that mutually produces a benefit of (3) in exchange for a cost of (1), netting both individuals (2).

<b>Name</b>	<b>Value Owed By Other Party</b>	<b>Value Owed To Other Party</b>
Anthony	3	1
Bob	3	1

<sup>11</sup> Ibid.

<sup>12</sup> Michael Taylor, *The Possibility of Cooperation*, (Cambridge University Press, 1987), 126–42.

<sup>13</sup> Schmitz, *The Limits of Government*, 55–79.

Figure 1: Sample table of individuals engaged in contract.

Individuals can either honor their contractual obligations, or they can violate them. Such a situation can be represented by the following payoff matrix, where violating the contract is each player's dominant strategy. The outcome thus sees both players violating their contractual obligations, producing the lowest total welfare among all possibilities.

		<b>Bob</b>	
		<u>Violate Contract</u>	Honor Contract
<b>Anthony</b>	<u>(A, B)</u> <u>Violate Contract</u>	<b><u>0</u>, <u>0</u></b> *Nash Equilibrium*	<b><u>3</u>, -1</b>
	Honor Contract	<b>-1, <u>3</u></b>	<b>2, 2</b>

Figure 2: Example of a Prisoner's Dilemma game.

In the State of Nature, an individual could attempt to protect themselves, enforce their covenants, or coerce others into behaving in beneficial ways, but victory is not guaranteed. If two persons are matched against one another with no physical distinctions, they would each possess equal chances of victory, with potential gains canceling out with potential losses. As the number of persons involved in a social interaction  $N$  increases, the probability of any one individual achieving victory continually approaches 0 according to the expression  $\frac{1}{N}$ . The point is that violence is extremely costly; at best, possible losses cancel out prospective gains; at worst, losses are guaranteed. In such a hostile environment, cooperation is never the best option for a rational individual to take.

Of course, if a third party were able to offer reliable security services that protected individuals against harm, enforced contracts, recovered losses, and punished defection, then the

entire incentive structure in the State of Nature changes; cooperation becomes the dominant strategy insofar as it avoids the massive damages that would be imposed by such a powerful entity.<sup>14</sup> People would be able to transact, contract, cooperate, and otherwise live comfortably without a constant fear of harm and exploitation by others, while simultaneously withdrawing their own temptations for free-riding and barbaric conquest. This line of reasoning is the primary justification for the institution of a state that emerges from anarchy and forces people to abstain from violence, honor their covenants, and contribute to public goods. If people are forced to behave in such ways, then it will serve only to increase their own individual welfare.

For example, consider the following modification of the previous example where a third party enforcer imposes a punishment of (-10) on an individual when they violate contracts.

		<b>Bob</b>	
		Violate Contract	<u>Honor Contract</u>
<b>Anthony</b>	(A, B) Violate Contract	<b>-10, -10</b>	<b>-7, <u>-1</u></b>
	<u>Honor Contract</u>	<b><u>-1</u>, -7</b>	<b><u>2</u>, <u>2</u></b> *Nash Equilibrium*

Figure 3: Example of Prisoner's Dilemma game (Figure 2) solved by third party punishment

Performing contractual obligations becomes each individual's dominant strategy, and the outcome sees both individuals honoring their agreements, offering the highest total welfare in both the old game and this new modified game.

Disregarding the moral implications of such an idea for now, the proposal faces serious pitfalls that affect its feasibility. First, voluntarily contributing to the successful formation of such a third party would be impossible for the same reason that the main parties are unable to cooperate in the first place: every individual wants to free-ride others and protect themselves from

<sup>14</sup> Taylor, *The Possibility of Cooperation*, 146–8.

exploitation. This fact therefore requires a fourth party enforcer to coerce individuals into contributing to the formation of a third party enforcer. But to do that, a fifth party enforcer also becomes necessary to implement the fourth party, and so on; thus ensuing an infinite regression of higher-order collective action problems with no cooperative solution in sight. Second, the State exercises its power as an organized group of individuals. But if individuals cannot voluntarily cooperate on their own, how would the State ever maintain its own internal social organization and cooperation without yet another external enforcer? Once again, an infinite number of higher-order collective action problems arise to have the State simply maintain itself, assuming it could even be successfully instituted to begin with. Finally, if the State could overcome the first two issues and exist at this point in social development, why would it be benevolent in such an egoist world? The dominant strategy for the State, a massive entity that is essentially guaranteed victory in all violent conflicts, would be to plunder and extort individuals without providing anything in return. It is therefore not clear why the State would behave cooperatively with others, and above all else, why it would provide them with the costly services that are needed for social organization and economic development. For these reasons, it is simply not possible for the State to exist as envisioned unless the cooperation problem can be solved without the State. And such is not possible in this early State of Nature that features only one-time interactions.

## **Cooperation in Anarchy**

Fortunately, such a dark outlook of the world where *everything* is a collective action problem is not supported by the reality humanity currently finds itself in. This is because the Prisoner's Dilemma is primarily applicable to one-time interactions and falls short in capturing the possibility of greater gains that can be achieved through sustained cooperation. As I will

explain, contracts can become self-enforcing in the sense that defection and harm lead to the collapse of a more profitable long-term relationship. Moreover, I will elaborate on the role that reputation formation and social sanctions play in such relationships. These informal mechanisms of rights enforcement form a *natural state*, a laissez-faire capitalist social order based entirely on close-knit interpersonal relationships; that is, *who* one is and *who* one knows.<sup>15</sup> Cooperation is still not yet guaranteed here, but it is possible and the mutually preferable choice in many social situations.

As time passes in the early State of Nature, individuals will develop a wide variety of talents and abilities, in addition to demands and desires. Humans are nonetheless limited in their capacities, particularly because of factors like time, intellect, and physical capabilities. Therefore, to satisfy their own desires, individuals will need to outsource tasks to others that possess relevant specialties. Notwithstanding, one-time transactions and contracts of this exclusive nature will always fail, as previously discussed. But when individuals possess a strong recurring demand for each other's labor, as well as a mutual understanding of this interdependence, they can successfully engage in a long-term economic relationship that simultaneously makes all parties better off.<sup>16</sup> These relationships are supported by the fact that if an individual decides to harm another person in any way, such as by not respecting their humanity or property, they are also inadvertently hurting themselves by losing a valuable source of future income. Perhaps scamming, thieving, or killing a cooperative person in the present moment produces a decent short-term payoff; but this individual will no longer be willing to cooperate in the future, whereas a sustained relationship could have resulted in an even greater benefit to both parties. This is the theory of self-enforcing cooperation, which posits that

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<sup>15</sup> North, Wallis, and Weingast, *Violence and Social Orders*, 2.

<sup>16</sup> *Ibid.*, 18.



“persons will continue to exchange goods and services sequentially so long as each party believes that the future value of the relationship is worth more than any short-term gains either can obtain by deliberate breach.”<sup>17</sup> Consequently, the outcome for any one particular round of a Prisoner’s Dilemma game becomes contingent on the social context in which the game occurs.

Unsurprisingly, unanimous cooperation is one possible Nash Equilibrium for many repeated Prisoner’s Dilemma games, particularly those where a sustained cooperative relationship is mutually preferable to a continually defective one. In practice, such games frequently see players minimally discounting future payoffs and employing trigger strategies, where one cooperates so long as others have some history of doing so and defects otherwise. And while unanimous defection still looms over repeated interactions as a Nash Equilibrium, such an outcome is Pareto-dominated by unanimous cooperation in games where it is an equilibrium, as the latter produces the best outcomes for all parties. In effect, this has transformed the situation into an Assurance Game, where simple coordination between parties will suffice to produce the superior equilibrium as an outcome, given that all parties prefer it. This may be accomplished through pre-game collusion or by a sequential expansion of the first simultaneous-response round, with one party acting first.

Though in reality, self-enforcing cooperation is only possible during games with few players, as coordination becomes more difficult to sustain as the number of decision-makers increases. Such complications may arise when an individual possesses incomplete information, behaves irrationally, or does not value future payoffs from the relationship enough to view the situation as an Assurance Game. Mathematically, this can be expressed as  $N$  decision-makers each possessing a non-zero probability  $p$  of defection. As  $N$  approaches infinity, even when  $p$  is

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<sup>17</sup> Richard Epstein, *Principles For A Free Society: Reconciling Individual Liberty With The Common Good* (Perseus Publishing, 1998), 144–5.

*extremely* small, the probability that *every* individual cooperates approaches 0 according to the expression  $(1 - p)^N$ . For this reason, complex supply chains and large trade networks are guaranteed to eventually be broken, imposing costly losses on individuals and essentially limiting growth to small communities. Nevertheless, economic development at small scales is still possible through rights self-enforcement and is a necessary foundation for later large-scale growth.

Having established a mutually self-interested basis for cooperation in anarchy, this foundation inevitably leads to the creation of small trade communities in which members are interdependent on each other. In turn, this only serves to create another non-coercive mechanism for rights enforcement: reputation formation. If an individual harms others or does not honor their contracts, whether one-time or long-term in nature, they will naturally develop a negative social reputation in their community. Others who receive notice of this information will be more inclined to avoid future business or possibly even end any on-going commitments out of justified fears that similar losses will occur to them, with superior competition arising to supply excess demand. The more severe the damages and frequent the defection, the more society will inherently move away from the individual towards others who are proven to be more reliable. Just think: would a convicted murderer have the same experience in finding a job as someone who has not committed any act of violence? Would a known con-artist be entrusted to manage other people's money over professional investment managers? Reputation is foundational in a natural state where *who* one is and *who* one knows are the entire basis for business.<sup>18</sup> In this sense, "one-time" interactions are not really one-time anymore; an individual's history always follows them in their community, which can induce a series of one-time interactions to naturally

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<sup>18</sup> North, Wallis, and Weingast, *Violence and Social Orders*, 2.

mimic the trigger-strategy behavior of repeated relationships. Further, singular “repeat relationships” become engulfed in a much larger repeat relationship with society at large that sees all of an individual’s choices affecting how others interact with them. If an individual does not value a future relationship enough to view the situation as an Assurance Game, perhaps this perception changes once their actions in the relationship also affect how others behave towards them. Consequently, the outcome for any one particular round of a Prisoner’s Dilemma game becomes contingent on the even *larger* social context in which the game occurs.

While the natural economic repercussions of reputational harm produce an incentive to cooperate insofar as defection fails to capture future gains from others, some communities may take it a step further and enforce organized social sanctions on defectors. For example, Amish communities have a deep-rooted social norm of unanimously “shunning” perceived traitors, which has been shown to produce significantly negative psychological impacts on those targeted.<sup>19</sup> Similarly, the Hadza, a tribe located in Tanzania, have a social practice of abandoning identified freeriders whenever the group moves to a new location.<sup>20</sup> Finally, the social institution of the family is probably the most well-known example of group-imposed punishments aimed at incentivizing certain cooperative behaviors, particularly towards children with punishments like “timeout”. It is therefore not unreasonable to suspect that many close-knit communities in the State of Nature would naturally develop social norms that directly punish harm, defection, and free-riding, seeing as such activities produce the lowest human welfare over the long-run. It is in both the collective good and in the average individual’s long-term interest for individual rights to be recognized as norms in a society, as such an institution incentivizes all parties to induce the

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<sup>19</sup> Ashley Mendez Ruiz, “The Amish Rule of Order: Conformity and Deviance Among Amish Youth ”, Scholarworks@Arcadia, May 19, 2017, [http://scholarworks.arcadia.edu/senior\\_theses/30](http://scholarworks.arcadia.edu/senior_theses/30).

<sup>20</sup> Frank Marlowe, “Hadza Cooperation”, *Human Nature* 20, no. 4 (2009): 426, <https://doi.org/10.1007/s12110-009-9072-6>.

welfare-maximizing outcome of unanimous cooperation. Thus, the possibility of social sanctions presents another opportunity for social order.

Though, the cooperative mechanisms of reputation formation and social sanctions face the same practical limitations as rights self-enforcement, as reputation becomes increasingly difficult to track as group size increases. In a society of millions, is it really possible for every person to keep a running list of every other person's reputation? Even more difficult, perhaps, would be coordinating *every* person to recognize social sanctions against people with bad reputations. If a jewel thief steals diamonds in Philadelphia, it is beyond impractical to suggest that all people in the city could unanimously recognize social sanctions against such a person, let alone all receive word of this bad reputation to begin with. And this is just for one relationship; imagine such facilitation for *all* violent offenders in Philadelphia or in America. Nevertheless, if reputation formation and social sanctions were to exist in small communities, as they frequently do in reality, rational individuals would possess yet another incentive to cooperate.

Now consider a hypothetical State of Nature with the following individuals, occupations, recurring demands, values of such demands, and discount factors.

<b>Name</b>	<b>Occupation</b>	<b>Recurring Demands</b>	<b>Value of Demands</b>	<b>Discount Factor</b>
Anthony	Chef	Cooked Meals, Fruit, Metal Tools	(1, 3, 3)	0.9
Bob	Farmer	Cooked Meals, Fruit, Metal Tools	(3, 1, 3)	0.9
Carl	Blacksmith	Cooked Meals, Fruit, Metal Tools	(3, 3, 1)	0.9

*Figure 4: Table of sample individuals with mutually-demanded specializations of labor*

If the above demands were one-time, the situation would result in the traditional outcome of a Prisoner's Dilemma game. But when demands are recurring, greater gains can be achieved

through long-term cooperation than short-term defection, as the latter option means that the trade relationship is cut short. Accordingly, each of the three individuals may find themselves continually trading with the other two, utilizing their unique specializations of labor to produce goods that the other two demand. Anthony can provide cooked meals in exchange for fruit and metal tools, Bob can harvest fruit in exchange for cooked meals and metal tools, and Carl can produce metal tools in exchange for cooked meals and fruit. This possible trade relationship allows each of the three individuals to be made best off in the long-run and obtain all of the items they demand, despite only being able to produce one kind of item by themselves.

Consider what would occur if Anthony decides to scam Bob and keep all of his fruit without providing any cooked meal in return. Bob would subsequently cut ties with Anthony, and after learning about what has occurred with the unreliable chef, Carl may also choose to end business out of a justified fear that a similar loss may occur to him. Such an outcome becomes all the more salient when nearby replacement chefs, say David and Ethan, are available to transact with. From his poor decision-making that caused him to lose both of his trading partners, Anthony is left worse-off in the long-run than he otherwise could have been. Rational individuals can foresee such poor outcomes in advance and will therefore choose to respect the humanity and property of others; for their own future benefit. And if they do not, fractured relationships and poor reputation will gradually drain away their possible social and economic opportunities, with more reliable and reputable replacement options eventually emerging to fulfill demand.

The aforementioned trade relationship between Anthony and Bob can be represented by the following payoff matrix:

		<b>Bob</b>	
		Provide Nothing	Provide Fruit
<b>Anthony</b>	(A, B) Provide Nothing	<b><u>0, 0</u></b> *Nash Equilibrium*	<b>3, -1</b>
	Provide Cooked Meal	<b>-1, 3</b>	<b><u>20, 20</u></b> *Nash Equilibrium*

Figure 5: Example of an infinitely repeated Prisoner's Dilemma stage game (Figure 2) where both players utilize Grim Trigger strategies and have  $\delta = 0.9$ .

The Pareto-efficient outcome where both individuals provide the other with their specialized goods is one of two Nash Equilibria. This means that cooperation is more than possible and can be achieved in the real-world with minimal “convincing”, since both parties prefer that particular Nash Equilibrium to the other.

It has been shown that markets and small trade communities can spontaneously emerge and self-regulate to respect the humanity and property of others insofar as it is in each party's mutual self-interest, thus proving how a laissez-faire capitalist social order can rationally develop through the State of Nature. Yet, it was also illustrated that cooperation is still not always *guaranteed* under such a framework, as individuals may behave irrationally, possess incomplete information, or not mutually value future payoffs enough. Losses resulting from such unfortunate circumstances can be costly, and this fact prevents large-scale economic growth as community sizes grow beyond interpersonal levels. This illustrates a strong demand in the State of Nature for reliable security services, where cooperation can essentially be guaranteed amongst individuals that do not know each other or have any mutual dependency.

## Protective Associations

In anarchy, some individuals will develop a specialization for violence, especially when the early State of Nature all but requires it.<sup>21</sup> Given the possibility of cooperation and the strong demand for reliable security in a laissez-faire capitalist social order, protective associations will naturally emerge in the market to offer security services<sup>22</sup>, such as contract enforcement, loss recovery, personal protection, criminal punishment, and general territorial defense. These protective associations can come in two possible forms. The first kind are those firms that offer security services directly to individuals as a private good; this is the idea proposed by Nozick. The second type are protective association “clubs” that offer security services as benefits to members while they are within the association’s borders. Membership to the club (and consequently, access to the protective association’s territory) is sold as a market good, where funds are then used to produce the security services. The primary difference between these associations is that services are being offered *individually* for the former association, while they are offered *collectively* in the latter. As will be discussed, this small difference in structure will produce significant ramifications because of the non-excludable nature of security.

First, when the protective association’s security services are offered directly as a market good, it is not feasible for competition to exist in the market as an equilibrium, especially when community sizes are large. Within any given territory, militaries would be in a constant state of war with one another, private courts would issue competing rulings, and private police forces would enforce different legal codes based on the individual they were dealing with. Put simply, the laissez-faire capitalist social order that found a sense of stability and harmony at a small scale now becomes chaotic as conflict increases exponentially with social size. However, this disorder

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<sup>21</sup> North, Wallis, and Weingast, *Violence and Social Orders*, 18-20.

<sup>22</sup> Nozick, *Anarchy, State, and Utopia*, 12–5.

will eventually converge to a local monopoly provider of security services that realizes social stability.

Nozick provides an “invisible hand” explanation of how a single dominant protective association emerges from a widely competitive market of local protective associations.<sup>23</sup> First, if conflict arises between individuals that are of the same protective association, disputes will need to be settled through a fair and non-violent arbitration process, such that the firm maintains neutrality and objectivity among its paying clients, whom it values equally. However, when individuals get into a dispute and are represented by different firms that cannot find a solution, the associations will battle it out to promote the best interests of their respective clients. During such conflicts, justice is not necessarily delivered to those that are in the right, but rather to the stronger party. Individuals who have been legitimately wronged by another but have contracted a relatively weaker protective association may never find recourse for their problems.

Consequently, if a firm loses battle frequently, it will either be entirely wiped out by the very nature of violent conflicts, or its reputation will be weakened by its inability to adequately represent clients, thus shifting market share away from such inferior protective associations. If a firm frequently wins battle, its reputation will only be strengthened by its success at representing clients, thus shifting market share in its direction. A series of dominant security providers will naturally emerge from this selection process, as success only serves to accelerate the expansion of business even faster. During this process, protective associations may choose to cooperate with one another to hedge long-term risks and avoid violent conflicts that are costly. If protective associations choose to collude, it will necessarily involve settling disputes between clients non-violently through a neutral arbitration procedure. But this is precisely what a protective association does when its own clients get into conflicts with one another in the first place; an

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<sup>23</sup> Ibid., 15–22.



informal merger has occurred to form a larger, unionized protective association composed of smaller associations. Weaker firms that choose not to cooperate with stronger ones will eventually be eliminated such that only one protective association will remain in the end: the Dominant Protective Association.

Weaker firms created after this point of monopolization, as well as individuals privately enforcing their own rights, will either need to conform with the Dominant Protective Association's decision procedures or face eventual elimination like all that came before. The Dominant Protective Association may therefore choose to issue commands that *limit* or *prohibit* the private use of force insofar as this avoids the mutual risk of violent conflicts that would necessarily arise from unresolved disputes.<sup>24</sup> Consequently, a local monopoly provider on the legitimate use of force has emerged through the free market. Yet, this monopoly does not *force* individuals to pay for its services, which proves to be difficult to the sustenance of its non-excludable services.

Consider a large society where everyone pays the Dominant Protective Association for security. Anthony, a disgraced chef with a history of free-riding, decides to move to the society and immediately notices something strange: he has not paid anything to the Dominant Protective Association, yet he is still receiving benefits from its security services. For example, he enjoys a low crime rate in the area from the police force's presence, is protected from foreign invasion by the national military, and is defended against foreign attacks by the national missile defense system. Further, Anthony observes that if he pays for security services and everyone else does not, his contribution is essentially worthless, as the Dominant Protective Association will not be able to offer reliable services at a large-scale with such low funding. For both these reasons, Anthony decides it is not in his best interest to pay. And indeed, non-contribution is the dominant

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<sup>24</sup> Ibid., 88–120.

strategy for *all* residents in a social situation that can best be modeled by the familiar Prisoner's Dilemma game. The outcome sees the security services not being funded, thus inducing the public goods problem. Though, as discussed earlier, the repeated Prisoner's Dilemma game can be transformed into an Assurance Game when long-term cooperative payoffs overshadow short-term defection payoffs. For these cases, simple coordination between parties can induce unanimous cooperation for an outcome that makes everyone best off. Yet in practice, this coordination becomes more difficult as the number of decision-makers increases, which is particularly relevant to this scenario that features a large society. Indeed, in groups with millions of people, it is not feasible to expect that *every* individual will contribute to a public good, as some people may possess incomplete information, behave irrationally, or not value future payoffs enough to view the situation as an Assurance Game. And even if *some* people did contribute, it would still not achieve the same benefit or efficiency that it did when *everyone* contributed. Consequently, in order for the Dominant Protective Association to operate at its optimal levels, it must utilize unauthorized coercion to force the unanimous funding of its security services that ultimately make everyone in a territory better off. This use of force raises serious moral concerns, but if such coercion is not employed, suboptimal results are produced. This demonstrates a tension between political legitimacy and consequentialism that will be explored in the next section, [\*Morality of Social Order\*](#).

Notwithstanding, when a protective association *owns* the region where it is offering security services, notice that the baseline shifts: the association is well-grounded in its use of force to collect money that it is *owed*, as well as in its ability to exile non-contributors. This solves the public goods problem in the sense that it transitions the situation to a "club goods problem", where the use of force is *prima facie* morally permissible in such circumstances

because of property rights inherent to the protective association. Again, more will be discussed about moral permissibility of the State later, but it is important to note this distinction here.

An association of this kind may be formed by entrepreneurial violence specialists who privately acquire large amounts of unclaimed land that will then be contracted to others on a recurring basis. Though, given that other unclaimed land can be freely acquired in the State of Nature, no rational person would go through with such a transaction unless the land offers something *special* that makes it demanded. To increase the value of the region's property, security services like contract enforcement, loss recovery, personal protection, criminal punishment, and general territorial defense can be offered to residents as benefits while they are within the association's borders. More technically, access to live in the territory is sold as a market good, whereas the territory's security services themselves are freely offered to authorized residents (effectively making such services club goods). This is a similar rationale that apartment complexes utilize, albeit to a much smaller scale. For example, landlords seeking to increase apartment rental rates might implement a front-desk security team or a closed-access system that limits building entry to residents. The only people who benefit from such free services are residents, despite the fact that these same individuals face a collective action problem to implement such services if they weren't provided by the property owner. Notwithstanding, if an apartment resident does not pay their owed rent, either they are evicted or the money is collected by the legitimate use of force. And in a similar sense, if an individual does not pay the protective association what it is owed (taxes), they are either exiled or payment is collected by the legitimate use of force. This provides a reliable source of funding for the provision of security services that is *prima facie* morally permissible, unlike the concerns raised for Nozick's conception of the protective association.

Smaller protective associations may form within the boundaries of the larger “club” association, but they will find it necessary to informally merge with the larger entity or face eventual elimination by it, per the original invisible hand explanation. The most external protective association - the Dominant Protective Association, as it has been described - may therefore choose to contractually *limit* or *prohibit* the private use of force more generally in its borders, insofar as this avoids the risk of violent conflicts that would necessarily arise. This can be done through the specific terms of the contract that all club members voluntarily agree to. Nevertheless, this form of the Dominant Protective Association thus attains a monopoly status on the legitimate use of force within the region it services.

## The State

The Weber sociological tradition defines the State as an entity that successfully upholds a monopoly on the use of force over a continuous geographic area.<sup>25 26</sup> By this description, two types of Dominant Protective Associations have developed as market goods to become States from their maintenance of social order that has naturally granted them a local monopoly on the legitimate use of force. Therefore, it has been demonstrated that a laissez-faire capitalist social order, where the State develops as a market good, can rationally emerge from the State of Nature; thus also proving feasibility of the model.

As it has emerged in two separate contexts, the State offers private security services to clients that defends them from harms committed by others, both foreign and domestic. It delivers restitution for involuntary damages committed by others, and acts as a third party enforcer for contracts such that cooperation is always each rational agent’s dominant strategy. As this resolves the one-shot Prisoner’s Dilemma game, social order is no longer contingent upon

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<sup>25</sup> Max Weber, *The Theory of Social and Economic Organization* (Oxford University Press, 1947), 156.

<sup>26</sup> Max Rheinstein, “Chapter 13” in *Max Weber on Law in Economy and Society* (Harvard University Press, 1954).

close-knit, interpersonal relationships like it was during the natural state.<sup>27</sup> To be sure, these limited operations by the State serve to create safer communities and enable large-scale economic growth from the possibility of complex supply chains and trade networks that have now found a haven for development in a laissez-faire capitalist social order.

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<sup>27</sup> North, Wallis, and Weingast, *Violence and Social Orders*, 21–5.

## II. Morality of Social Order

This section's argument for the moral permissibility of a laissez-faire capitalist social order, where the State develops as a market good, can be represented in the following premise-conclusion form:

- P1:** If individuals do not possess natural moral rights, everything is morally permissible.
- P2:** If individuals do possess natural moral rights, a social order is morally permissible if and only if its institutions respect these rights.
- P3:** If individuals do possess natural moral rights, these rights are strictly limited to one's own life, liberty, and property.
- P4:** The institutions of a laissez-faire capitalist social order, where the State develops as a market good, respect the life, liberty, and property of individuals.
- C:** **A laissez-faire capitalist social order, where the State develops as a market good, is morally permissible.**

If individuals did not possess natural moral rights, the concept of moral obligation would be non-existent. This is because one party's obligation is the consequence of another party's right; if no moral rights naturally exist, then no moral obligations do as well. Under such a circumstance, *everything* is morally permissible, including a laissez-faire capitalist social order where the State develops as a market good. Notwithstanding, there is strong reason to believe that individuals *do*, in fact, possess natural moral rights to their own life, liberty, and property; presenting corresponding moral obligations to others. Under such circumstances, a social order is therefore morally permissible if and only if its institutions respect these rights. In this section, I will first defend a limited conception of natural moral rights on the basis that persons are normatively separate. Then, I will show how the envisioned capitalist social order and its

corresponding market state uniquely respect these natural moral rights compared to all alternative social orders; thus making laissez-faire capitalism the only morally permissible option to organize a society.

## Natural Rights

Persons are separate in a variety of ways.<sup>28</sup> They inhabit their own bodies, live their own experiences, conceive their own thoughts, enjoy their own pleasures, and suffer their own pains. They discover their own passions, form their own relationships, set their own goals, develop their own strengths, and overcome their own weaknesses. They pursue their own projects and ventures. They utilize their distinct mental capacities to *imagine* something, and then employ their specific physical and intellectual abilities to *create* what they have envisioned. Essentially, what really makes persons so unique from one another, especially when compared to other species that rely mostly on biological instinct, is the concept of autonomous choice. That is to say, an individual can use their knowledge to ultimately decide for themselves *who* they are to be and *what* they are to do, and then *will* this choice into existence.<sup>29</sup> This is not to suggest that individuals exist in a vacuum and are in no way influenced by their environment or other people; quite the contrary, as it is this social quality of persons that allows them to develop and learn. Rather, it is simply an acknowledgement that persons ultimately make the final say in deciding their own lives. Descriptively, the separateness of persons and the subsequent autonomy that humans individually possess are relatively uncontroversial statements of fact.

Normatively, separate persons *ought* to be recognized as such. In the Liberty Tradition, this conclusion primarily means that all individuals are obliged to respect the autonomous nature

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<sup>28</sup> Matt Zwolinski, "The Separateness of Persons and Liberal Theory." *The Journal of Value Inquiry* 42, no. 2 (2008): 147–8. <https://doi.org/10.1007/s10790-008-9107-y>.

<sup>29</sup> Rothbard, *For A New Liberty*, 32–4.

of others in their social interactions,<sup>30</sup> as it is entirely a person's autonomy that bestows their unique personhood to begin with. Violence and coercion are problematic because they disrupt one's identity and individuality; they necessarily conform a person's body and mind to the arbitrary will of another without regard for their autonomous choice;<sup>31</sup> they allow one person to forcefully *decide* the values of another; they degrade the individual to the likes of a tool. Such conduct entirely denies the reality that a separate person is, in fact, a person; they are not a piece of property for others to use. Kant presents this conclusion through his Principle of Humanity, writing, "Act in such a way as to treat humanity, whether in your own person or in that of anyone else, always as an end and never merely as a means"<sup>32</sup> Essentially, a person *ought* to be treated as a person precisely because they *are* a person, particularly one with their own unique set of desires that cannot be conflated with those of others or collapsed into a single entity; one's values are theirs alone to experience. The normative gravity to the separateness of persons generates each individual a legitimate and exclusive moral claim to non-interference over their own sphere of autonomy. Notwithstanding, because other persons also hold such claims, each individual is simultaneously *prohibited*, in a metaphysical sense, from behaving in manners that violate the autonomy of others. In this way, each person *owns* themselves,<sup>33</sup> as only they possess the moral right to make a decision pertaining to their life.<sup>34</sup> That is also to say, each person possesses natural rights to their own life and liberty that predate the institution of any social order or government.

While the rights to life and liberty unambiguously follow from such logic insofar as they directly correspond to persons themselves, the natural right to property is less obvious because

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<sup>30</sup> Mack and Gaus. "Classical Liberalism and Libertarianism", 115–24.

<sup>31</sup> Hayek, *The Constitution of Liberty*, 57–72.

<sup>32</sup> Immanuel Kant, *Groundwork for the Metaphysics of Morals*, ed. Jonathan Bennett (Jonathan Bennett, 2017), 29.

<sup>33</sup> John Locke, *Second Treatise of Government*, ed. Jonathan Bennett (Jonathan Bennett, 2017), 11.

<sup>34</sup> Nozick, *Anarchy, State, and Utopia*, 171.



property is an *extension* of a person. To be specific, a property right is an *entitlement* that grants a person legitimate exclusivity over something - whether that be in the form of material objects, physical space, ideas, or labor. Such an institution can be morally defended by acknowledging that a person's identity, both as it is viewed by the self and by others, is dependent on the creative projects that one pursues.<sup>35</sup> If property rights do not exist, then the projects that one chooses to engage in are not recognized as their own projects to begin with - they are *nobody's* projects. This problem is only exacerbated when one's goals *require* that they maintain exclusivity to their own project's output. For example, an individual creates a business so he can exclusively reap the profits from it, and he buys a house so his family can exclusively live in it. By not possessing the liberty to engage in property acquisition, persons lose their unique identity and autonomy because it makes it impossible for them to pursue their own projects and aims, thus violating the separateness of persons. In effect, the right to liberty *is* the right to property,<sup>36</sup> and to deny property is to deny liberty.

To provide a constructive example of this negative argument for property rights, imagine if during the construction of Michelangelo's *David* masterpiece, Leonardo da Vinci decided to abruptly slice the marble block in half. Or consider that after Michelangelo's *Bacchus* was completed, Raphael carved his name into the sculpture and moved it from Florence to Rome. If one does not recognize property rights, both of these actions are morally permissible and legitimate, despite the fact that they clearly violate Michaelangelo's liberty to pursue his own *exclusive* creative projects and his ability to maintain the final product of his *own* labor.

Property rights can be also defended positively as a direct consequence of self-ownership. As previously mentioned, because one possesses the exclusive right to decide their life from the

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<sup>35</sup> Zwolinski, "The Separateness of Persons and Liberal Theory", 155.

<sup>36</sup> Mack and Gaus. "Classical Liberalism and Libertarianism", 117.

separateness of persons, they effectively *own* their person. Next, because one's labor is an inseparable quality of their person, they therefore own their labor as well. Then, when this labor is used to pursue a project, the labor *becomes* the project, naturally instilling ownership through transitivity. Finally, one inherently comes to own any value that originates from the project because it is an inseparable quality of what they own. Or as Locke writes, "The labor of his body and the work of his hands...are strictly his. So when he takes something from the state that nature has provided...and...mixes his labor with it...he makes it his property."<sup>37</sup> Thus, property rights have been positively justified as an extension of the person.

Since property corresponds with the projects that persons undertake, all natural resources in the State of Nature are initially *unowned* by every person in common. This is because no projects or aims have yet been pursued by persons, so it is impossible to say that any one person, let alone *every person in common*, possess ownership over anything but themselves. From this starting point, there are two ways an individual may rightfully acquire property.<sup>38</sup> First, once individuals begin pursuing their own creative ends, initial acquisitions can be directly made from the State of Nature's unclaimed resources, subject only to the limitations of each person's projects and aims. Second, after a resource has a claim on it, no one else may rightfully acquire it unless the current owner decides to contractually exchange it or voluntarily transfer it to a new owner. Of course, goods can be created by combining natural resources together, and so long as one rightfully owns these resources, they also own the combination of those resources put together. Therefore, per the second principle of rightful acquisition, goods can be transferred on the basis that they are multiple resources being transferred at once. With these processes, an endless number of resource transfers can occur between persons, subsequently allowing for

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<sup>37</sup> Locke, *Second Treatise of Government*, 11.

<sup>38</sup> Nozick, *Anarchy, State, and Utopia*, 150–5.

endless creativity of resources being combined together to produce something of even greater value. All the while, moral boundaries are respected.

When moral boundaries are violated, the use of force is morally permissible for the purposes of defending one's life, liberty, and property. This is because the use of force maintains exclusivity over one's person when others seek to violate it. More specifically, from the right to self-ownership, an individual is *entitled* to be in a certain state of affairs. When this natural position is threatened by others, the use of force guarantees one's personal entitlement. Consequently, the use of force to collect restitution and compensation owed for rights violations is also morally justified because it similarly seeks to enforce the natural position that one is entitled to, albeit to restore what *was* rather than to defend what *is*. Both uses of force are permitted insofar as they allow justice to be delivered to persons by their personal entitlements being upheld. Other justifications for the use of force, however, are not morally permissible because they necessarily *violate* the entitlement that others possess over their person.

From the separateness of persons, it has been shown that individuals are endowed with a set of natural rights. That is to say, it is morally impermissible to forcefully interfere with the life, liberty, and property of others. Because these rights represent the totality of personhood, it is *prima facie* impossible for other natural rights to coexist without being either reducible or contradictory to those which have been argued to exist, thus strictly limiting natural moral rights to one's own life, liberty, and property. Nevertheless, when these claims to non-interference are violated by others, it was further argued that it is morally permissible to use force for the maintenance of one's person and possessions, as well as to collect restitution and compensation owed from such rights violations.

## Political Legitimacy

A laissez-faire capitalist social order is morally permissible because its institutions innately respect the natural rights of others. This social order initially developed in anarchy because of the prospect for greater gains that could be mutually achieved through sustained, voluntary cooperation. In this natural state, rights to life, liberty, and property become self-enforcing in the sense that harming an individual also meant losing them as a long-term trade partner. As small trade communities developed from this cooperative foundation, the cooperative mechanisms of reputation formation and social sanctions only further incentivized a respect for the humanity and property of others, without violating any rights to do so. As community sizes grew too big for these interpersonal enforcement mechanisms, the State developed as a market good, in two forms, to meet the demand for security services. In Nozick's conception of the State where there is no innate territorial ownership, individuals voluntarily purchase security services that enforce their rights from a local monopoly provider. In the type of State where there is territorial ownership, individuals voluntarily contract with a land-owning state to privately live on land within its borders, subsequently receiving free security services that enforce the rights of all residents. If an individual no longer possesses the right to live on the State's land because of nonpayment, they are either exiled or the money owed (tax) is collected as restitution by the use of force. Both of these uses of force are morally permissible in the State's enforcement of its own property rights, particularly those originating from contracts that others voluntarily agreed to. When private property is passed down through generations, any contractual obligations owed to the State follow with it. As such, in both cases of its market development, the State maintains a respect for natural rights. The phrase *laissez-faire* quite literally means "let do", and it is therefore not surprising that a social order based entirely on

voluntary action and strong property rights is morally permissible with respect to the separateness of persons.

Though, an important question worth asking is: why are other social orders *not* morally permissible? First, it must be made clear that political and social institutions are subject to the same moral obligations of all individuals; there exists no special exemption for when individuals act together as a group. The answer, then, lies entirely in the object of consent: it cannot be *assumed* that all people living in a society consent to be governed by a particular set of rules instituted by a coercive body.<sup>39</sup> Such assumptions have been made throughout history, and atrocities have been committed around the world, including totalitarianism, genocide, eugenics, and slavery. Yet, these horrors all begin somewhere, and that is always with the first person. If even one person does not explicitly consent to be governed by a political system, the government itself is morally impermissible because it necessarily fails to respect the autonomous nature of separate persons. Just because a government has more power than individuals does not provide it with any intrinsic moral right to perform harmful actions like violence and coercion. Such aggressive theories of political power typically presume *all* individuals in a society are universally interested in some “greater good” and that they will undergo personal sacrifices to achieve it,<sup>40</sup> treating persons as though they are robots programmed with a particular set of behaviors and values to conform to. The perceived nobility of a coercive social order is irrelevant; it does not matter if it “promotes equality”; it does not matter if it is in the “collective good”; it doesn't even matter if it truly is in one's own “best interest”; to force someone to do something that they have not consented to is wrong because it treats them as less than human. This is not to deny the existence of virtue, quite the contrary: an action *cannot* be virtuous unless

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<sup>39</sup> David Hume, “Of The Original Contract” in *Classics of Modern Political Theory: Machiavelli to Mill*, ed, Steven Cahn (Oxford University Press, 1997), 509–11.

<sup>40</sup> Epstein, *Principles For A Free Society*, 149–50.

it is done by one's own volition. As Hayek states, "If every action which is good or evil... were to be under pittance and prescription and compulsion, what were virtue but a name, what praise could be due then to well-doing? Liberty is an opportunity for doing good, but this is so only when it is also an opportunity for doing wrong."<sup>41</sup> Nevertheless, coercive political systems are problematic precisely because their lack of explicit consent does not respect the separateness of persons. The special nature of laissez-faire capitalism, however, is that consent is not required for legitimacy of the overall social order, as the social order's means of organization *is* consent itself. Laissez-faire capitalism's institutions, such as the State, are based entirely on voluntary action and are therefore unquestionably permissible.

Unlike the standard "greater good" justification of political authority where persons are made worse off in reality, the public goods problem presents a perplexing moral dilemma because non-consensual coercion *does* actually make all individuals economically better off than when it is not used. As discussed in the [Emergence Of Social Order](#) section, Nozick's market state succumbs to this public goods problem because individuals face a collective action problem for the provision of security services that are non-excludable in nature. That is to say, the dominant strategy for individuals is to free-ride and not contribute. And even if *some* individuals did purchase the services, such an outcome is not as efficient as when *everyone* purchases them. If two people both contribute \$10 to the military, it is not nearly as effective of a service as when tens of millions of people each contribute \$10. Coercion, therefore, seems like a necessary device to increase human welfare.

This benign paternalism presents very serious cause for concern, particularly because of its implications. First, if a coercive provision of public goods is morally justified on the basis that it makes individuals better off, what is the limit to such a justification? It is not clear why the

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<sup>41</sup> Hayek, *The Constitution of Liberty*, 141.

State ought to stop its paternalism at a mere provision of public goods. If it could truly be shown that coercion also makes individuals better off in *other* areas of their life, why would such acts not be equally justifiable to perform? Taking this to the logical extreme, if governments possessed perfect knowledge and knew every way in which persons could achieve their “happiest” lives, from birth until death, why would it not be permissible for the State to *force* individuals to live such lives? In effect, if any act of paternalism by the State is morally permissible, it is entirely justified for the State to *live* the lives of others when it knows what's best for them. Though, what is a life if one cannot *live* it for themselves? The choices that a person makes have value to them precisely *because* they were chosen; that out of all the possible options for one to decide from, *this* was the option that was selected. Life without liberty is meaningless.

Nevertheless, if the concession of paternalism is granted and the implications accepted, the gates to hell have been opened to unleash an even greater evil. One might ask the question: why should people be *forced* to live their best lives? The only possible answer is that of a greater good: that individuals living their best lives is a desired state of affairs, and so non-consensual coercion and violence are legitimate insofar as they achieve this end. In this sense, persons have become merely a means to achieving some end; paternalism is no longer justified out of a pure concern for the individual's wellbeing, but simply because it achieves some larger end that *just so happens to be* one's welfare. Though, if it could be shown that *something else* was actually a greater good, it is not clear why violence and coercion wouldn't be acceptable to achieve those ends. For instance, if it were to be the case that human anger was actually the “greater good” in reality, coercion would be equally grounded in its use to make people mad. What if one's death were in the greater good? Or strict obedience to some evil dictator? The larger idea here is that if a greater good justification is valid as support for *some* particular policy or political institution,

then it is equally valid to use it as a justification for *all* policies and political institutions if they were to hypothetically satisfy the “greater good.” This general critique applies to all theories that directly use the “greater good” maxim, like utilitarianism, egalitarianism, fascism, socialism, and communism; if even one authoritarian political system is morally justified, they all are. Are proponents of these philosophies willing to accept the consequences that correspond with a universalization of their justifications? This idea is precisely Kant’s Categorical Imperative, which states “Act as though the maxim of your action were to become, through your will, a universal law of nature.”<sup>42</sup> In effect, no rational person is willing to accept the universalized consequences of actions that treat persons merely as means to an end because they generate moral legitimacy to other actions that they themselves detest. The only maxim that can be universally accepted by a rational actor is when persons are treated as ends in and of themselves, as this recognition of natural rights exclusively achieves internal consistency to match one’s own self-respect. Social orders that do not recognize natural rights, therefore, must be morally impermissible from not being logical or universally consistent in their justifications.

In this section, it was shown that laissez-faire capitalism is a morally permissible social order because its institutions innately respect the natural rights to life, liberty, and property that originate from the separateness of persons. It was also argued that other social orders, particularly those that utilize unauthorized violence and coercion, are not morally permissible because they fail to respect individual consent and are not consistent in accepting the consequences of their universalized justifications.

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<sup>42</sup> Kant, *Groundwork for the Metaphysics of Morals*, 24.



### III. Consequences of Social Order

This section's argument for consequential maximization of a laissez-faire capitalist social order, where the State develops as a market good, can be represented in the following premise-conclusion form:

- P1:** A social order produces the best consequences if and only if its institutions generate the greatest human welfare relative to all alternative social orders.
- P2:** The institutions of a laissez-faire capitalist social order, where the State develops as a market good, generate the greatest human welfare relative to all alternative social orders.
- C:** **A laissez-faire capitalist social order, where the State develops as a market good, produces the best consequences.**

Value is inherently subjective. If sentient life did not exist to *assign* value to particular things, then value itself would also not exist. Without a hungry organism to eat an apple, it is just a collection of molecules arranged in an ellipsoid shape. Without a conscious life to observe the beauty of the Niagara Falls, they exist merely as objects of nature. Consequences, therefore, have value *solely* because they provide utility to persons. Accordingly, for some particular state of the universe to produce the best consequences, it must produce the greatest human welfare among all alternatives. Thus, for a *social order* to produce the best consequences, its institutions must produce the greatest human welfare among all alternative social orders. Though, to directly prove such a sweeping claim is a tall task indeed. Notwithstanding, the defining characteristic of laissez-faire capitalism, compared to all other social orders, is that it respects absolute individual rights to life, liberty, and property. Therefore, to prove the larger claim at hand, it simply needs to be shown that the use of non-consensual institutions - those which violate the liberty and/or

property rights of individuals - relatively *reduce* human welfare from the natural and consensual laissez-faire capitalist position. It is precisely this claim that I shall defend in this section.

## Choice

Relevant to the discussion of individual liberty and choice, Mill writes, “it is a doctrine worthy only of a swine” to “suppose that life has...no higher end than pleasure – no better and nobler object of desire and pursuit.”<sup>43</sup> He continues, “It is better to be a human being dissatisfied than a pig satisfied; better to be Socrates dissatisfied than a fool satisfied.” Making a similar claim, Nozick states, “First...we want to *do* certain things...not just have the experience of doing them... Second...we want to *be* a certain way, to be a certain sort of person.”<sup>44</sup> These pluralistic views both propose that value is *greater* than mere experiential pleasures and that it is not uniform across persons. That is to say, it is not merely about the emotions or physical sensations that persons feel from experiences which instills a sense of value into consequences; there exist *higher-order pleasures* that are exclusive to separate persons based solely on their own desires, and it is therefore not possible to collapse the values of persons into one comparable unit. It was precisely this fact that was used to justify the normativity to the separateness of persons in the [Morality of Social Order](#) section; that one’s values are ultimately theirs alone, and that this fact generates moral claims to one’s own person. However, the separateness of persons thesis also has consequentialist implications rather than strictly deontological ones.

Only individuals themselves *know* what they value, as it is a person's own preferences that instill value into the universe to begin with. Of course, these preferences could be strictly limited to experiential pleasures like they are for lower-level species, but they can also be values regarding one’s identity or perhaps even metaphysically conditional on some *event* happening in

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<sup>43</sup> John Stuart Mill, *Utilitarianism*, ed. Jonathan Bennett (Jonathan Bennett, 2017), 5–6.

<sup>44</sup> Nozick, *Anarchy, State, and Utopia*, 43.

the universe. For instance, when a person leaves behind a will after they have passed away, they do so because their desires extend beyond what they can physically observe. To satisfy such desires still adds value to the universe and makes the person abstractly better off, despite the fact they are longer alive to experience the emotional or sensual pleasures of their will being executed. Or perhaps a person's values are contingent on living a certain kind of life, or conditional on making others feel a certain kind of way. The specifics are irrelevant; the point is that persons entirely discover value in this universe for themselves; they cannot be forced to genuinely find utility in something if they ultimately choose not to. As such, if a person truly valued some particular choice more than the other options available to them, it is not clear why they wouldn't choose it at their own volition. That is also to observe, when an individual makes a fully autonomous decision, it must be the case that their choice is ultimately what they value most in the present moment relative to all available options.

In general, the more choices an individual has available to them, the better off they become. This is because when options are *added* to an individual's baseline choice set, their preference will either shift to a newly-added item of greater value, or it will otherwise stay the same as it was in the smaller choice set; one's welfare can only go up as the size of their choice set increases. For inverse reasoning, when options are *removed* from an individual's baseline choice set, human welfare can only decrease from the possible removal of their higher-order preferences.

Therefore, coercion is problematic precisely because it utilizes threats and violence to *force* an individual to act in a certain way without regard for their fully autonomous choice that would otherwise have provided them with maximal welfare. This fact presents a losing battle for coercion, especially when it is applied as a method of social organization. At absolute best, a

coercive social order is consequentially equal to a purely voluntary one when it manages to correctly predict every individual's preferred choice; but at worst, it can cause severe harm to individuals by forcing them to act in ways that they detest. Furthermore, the imperfect knowledge that faces the real world, in tandem with time-varying preferences, means that authoritarian governments will almost certainly do significant harm to individuals through their failed attempts to regulate the behaviors of a society. Governments, in reality, can only source information about what people prefer collectively in the moment, and what preferences each individual has demonstrated in the past. Though, just because *some* people value something does not, to any extent, suggest that *all* people value that same thing. If *some* people prefer security over freedom, or equality over freedom, it cannot be presumed that *all* people hold these same values. Moreover, just because a certain person prefers something in *one* specific context does not imply that the same person will prefer it in *other* settings. If Frank prefers to watch the Pixar movie *Up* with his friends today, it by no means suggests that he desires to watch the same film tomorrow, or in a week, or even in a year; least of all in a private screening with government bureaucrats. Finally, a government will always necessarily do harm if an individual's preference is to make their own independent choices. Nevertheless, an individual's own preferences and values are something that only they can fully know, and it is for precisely this reason that authoritarian governments fail to optimally provide value to persons; the State is incapable of conceiving the complexities that mark an individual's distinct preferences. All the while, a social order could easily maximize human welfare for individuals by simply allowing them to make their own choices through a recognition of individual liberty.

Though, one counterexample that might be raised to this general claim is when people possess meta-preferences but lack the self-control to make such choices themselves; cases in which

more choice *does not* appear to be better for an individual. For instance, when a person desires to quit smoking but does not possess the proper mental faculties to override their addiction, wouldn't coercing them to not smoke better fulfill their desires than freedom of choice would? The answer to this is still a resounding no: if an individual *wants* to quit smoking and would truly prefer that someone intervene, then they would voluntarily consent to such an option when prompted, or they would seek out help themselves. Moreover, if an individual proceeds with smoking in spite of coercive threats, it is not clear how following through with violence against them makes them any better off. If anything, it would appear that violence would make them even worse off from additional pain and suffering. Finally, as previously mentioned, it cannot be assumed that *all* people prefer to quit smoking just because *some* people do; perhaps smoking is an individual's most joyful activity in their life. Of course, "smoking" can be substituted with virtually any autonomous behavior, whether a long-term habit or a short-term activity. Nevertheless, the point always remains: at best, coercion can capture what an individual would voluntarily decide anyways; but at worst can cause them extreme harm.

It is for precisely these reasons that government-enforced lockdowns and mandates did so much harm during the coronavirus pandemic. By imposing a uniform system of value onto people, these "healthcare" policies polarized entire nations, increased social conflict, led to the substantially increased development of mental health disorders in affected populations, and devastated the global economy from both supply and demand sides.<sup>45</sup> Further, such logic intuitively explains why the so-called "War On Drugs" has been such a colossal policy failure in America since its inception in 1971, just like alcohol prohibition before it in the 1920's, as these

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<sup>45</sup> Jeffrey Singer, "Coronavirus Lockdowns Have Obvious Costs and Unseen Costs Too", CATO Institute, June 4, 2020, <https://www.cato.org/publications/commentary/coronavirus-lockdowns-have-obvious-costs-unseen-costs-too>.

laws violate the welfare maximization that innately stems from liberty.<sup>46</sup> Finally, this line of reasoning also answers why so many American parents yearn for a system of school choice over the current policy regime of public school mandates.<sup>47</sup> In any event, the point here is not to suggest that the government is *always* bad or that individuals should never receive intervention in their life when they need help, but rather to state that consent and voluntary action are the keys to individual human welfare maximization.

From these arguments, it has been shown that infringing upon individual liberty is wrong because it eliminates the welfare maximization that stems from allowing free, unhindered individual choice. That is to say, individuals possess a right to their own liberty on the consequentialist grounds that coercive interference in their life makes them worse off and thus reduces total value than otherwise would naturally occur.

## Markets

One corollary of individual liberty is the natural development of markets, as the freedoms to exchange and association are inseparable qualities of autonomous choice. Though, the free market can also be defended directly from a collectivist perspective in that it provides the most efficient allocation of resources among all alternative means of economic organization.

Traditionally, “the collective good” has been utilized as a justification to subvert the free market and its associated individualism; advocating that under certain circumstances, persons can be used merely as means to achieving some greater socioeconomic end for the group. Yet, as I will discuss, this position is problematic for its incorrect assumptions about the utility individuals can

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<sup>46</sup> Christopher Coyne and Abigail Hall, “Four Decades and Counting: The Continued Failure of the War on Drugs”, CATO Institute, April 12, 2017,

<https://www.cato.org/policy-analysis/four-decades-counting-continued-failure-war-drugs>.

<sup>47</sup> Jason Bedrick, “Americans Want Choice, Not Government Mandates”, CATO Institute, June 27, 2014,

<https://www.cato.org/commentary/americans-want-choice-not-government-mandates>.

offer society from the exercise of their free will. What separates humans from mere tools is their unprecedented ability to acquire and utilize knowledge of their environment, and to suppose that persons have nothing more to offer society than their limited use as a cog in some larger social machine is to falsely presume that the unique knowledge they individually possess holds no greater value to society.

Humans are not omnipotent creatures; they do not possess perfect knowledge, and this limits what any one individual can achieve by themselves in a lifetime. It is precisely for this reason why individuals cooperate with one another in the first place: to utilize each other's specialized knowledge for a mutually greater long-term benefit; as was discussed in [\*Emergence of Social Order\*](#). To this end, Hayek writes, "Civilization begins when the individual in the pursuit of his ends can make use of more knowledge than he has himself acquired and when he can transcend the boundaries of his ignorance by profiting from knowledge he does not himself possess."<sup>48</sup> In essence, the foundation for social order itself is the economic exchange between persons, which is really just a transmission of knowledge that has been creatively manifested into physical outputs so as to supply greater value to persons than could otherwise be achieved by their own pieces of limited knowledge. The more that goods and services are traded in a society, the more that information flows through a civilization to create a larger, decentralized body of knowledge. Accordingly, Hayek's argument in favor of freedom is relatively straightforward: to limit liberty is to limit the transmission of knowledge in a society, and this necessarily decreases total human welfare relative to when such transmissions of knowledge had been permitted in a free market economy.<sup>49</sup>

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<sup>48</sup> Hayek, *The Constitution of Liberty*, 73.

<sup>49</sup> *Ibid.*, 74–90.

In the most direct sense, when economic liberty is constrained in any way, an individual is unable to fully utilize their unique knowledge to supply products and services that they know others demand. This is because only the individual themselves *knows* what knowledge they possess and how they can best utilize it; no one else in a society can affirmatively say they *know* all of the information that another person internally holds.<sup>50</sup> As Hayek eloquently writes, “The peculiar character of the problem of a rational economic order is...the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess...The economic problem of society is thus not merely a problem of how to allocate "given" resources...it is rather...how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know.”<sup>51</sup> Therefore, because of the relative ignorance that all persons share in society, for an individual to be coerced by others to act in some arbitrary way necessarily means that they are not being allowed to utilize their complete knowledge to its fullest potential for society’s maximal benefit.<sup>52</sup> Similarly, when an individual’s social liberty is involuntarily constrained in any way, they are less able to acquire such knowledge from social interactions and experiences that can then be harnessed to provide utility to others. Thus, non-consensual institutions in a social order are necessarily wasteful and economically inefficient, as value demanded is not being supplied even when it is available to be from the exercise of one’s full knowledge.

From this analysis, it is no surprise that command economies frequently suffer from devastating famines that lead to the deaths of millions of innocents. Such government-imposed

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<sup>50</sup> Ibid., 76–8.

<sup>51</sup> Hayek, “The Use of Knowledge in Society”, *The American Economic Review* 35, no. 4 (1945), 519.

<sup>52</sup> Hayek, *The Constitution of Liberty*, 57–72.



tragedies have historically included the Soviet Union<sup>53</sup> and China<sup>54</sup>, as well as North Korea<sup>55</sup> and Venezuela<sup>56</sup> in more recent times. Command economies are social orders where a centralized government forcefully seizes the entire means of production over a civilization, deciding solely for itself how many units should be produced and who should produce them. There are many deep-rooted problems with such authoritarian regimes, but as it pertains to supply-side economics, the issues are clear: preventing willing and capable people from supplying the local demands of others will necessarily lead to market shortages that cause severe harm to society. All economic activity is planned, it's only a matter of *who* should be doing such planning; should it be some far-away planning board of bureaucrats that know nothing of local demands and industry capabilities, or should it be the people who are actually on the ground, *living* with the circumstances of the world around them?<sup>57</sup> When there are problems in a society, people naturally fix them. To prevent people from solving their own problems without explicit permission from some arbitrary authority is evil, plain and simple.

The free market is a dynamic feedback system that continually adapts to reflect changes in each individual's own knowledge, signaling the conclusions of their information in one single quantity: price.<sup>58</sup> Market prices serve as “information signals” that allow buyers and sellers to continually coordinate appropriate supply and demand with one another in a way that a central planning board could never possibly capture. When buyers in aggregate offer to pay *more* for

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<sup>53</sup> Cathy Young, “The Holodomor, 90 Years Later”, CATO Institute, December 1, 2022, <https://www.cato.org/commentary/holodomor-90-years-later>.

<sup>54</sup> Mao Yushi, “I’m Trying to Solve a Decades Old Mystery: How Many People Were Killed by China’s Great Famine?”, CATO Institute, September 1, 2014, <https://www.cato.org/commentary/im-trying-solve-decades-old-mystery-how-many-people-were-killed-chinas-great-famine>.

<sup>55</sup> Doug Bandow, “Will China Save North Korea from Famine and Collapse?”, CATO Institute, August 6, 2021, <https://www.cato.org/commentary/will-china-save-north-korea-famine-collapse>.

<sup>56</sup> Nicholas Casey, “Venezuelans Ransack Stores as Hunger Grips the Nation”, The New York Times, June 19, 2016, <https://www.nytimes.com/2016/06/20/world/americas/venezuelans-ransack-stores-as-hunger-stalks-crumbling-nation.html>.

<sup>57</sup> Hayek, “The Use of Knowledge in Society”, 520–2.

<sup>58</sup> *Ibid.*, 525–30.

something that is scarce, this signals that there is a greater demand for the good relative to its current supply and that more of the good should be produced. The inverse is true when buyers offer to pay *less* for something. Buyers are kept honest in their offers by the fact that the market is competitive and that they must actually exchange some of their own property if the deal proceeds; they will consequently never offer more than they are willing to pay and will never offer anything unreasonably low compared to other buyers. The specific details of each buyer's life and why they cumulatively have higher demand for a good is irrelevant; it's all condensed into their relatively higher offer prices. Similarly, when changes occur on the supply-side and selling prices are *increased* on aggregate, this signals to buyers that production is not able to keep up with market demand and that less of it should be purchased; it tells buyers that they should "economize" and purchase substitute goods. The inverse is true when selling prices are *decreased*. Sellers are similarly kept honest in their offers by the fact that the market is competitive and that they want to make the most amount of profit possible; they will consequently never offer less than they are willing to sell for and will never offer anything unreasonably high compared to other firms. The specific details of a seller's business operations and why they have lower supply for a good is irrelevant; it's all condensed into their higher selling prices. For both ends of market activity, the decentralization of economic activity allows every individual in a society to gauge the information that others possess in an extraordinarily simplified manner and adjust their own actions accordingly, while simultaneously sharing with others the conclusions of their own knowledge through their own actions. Under perfect competition, an asset's market price will accordingly reflect all available information in a society from both the buying and selling participants, creating an efficient market and allocation of the resource. This is made entirely impossible under a central planning authority, where a small

group of bureaucrats seemingly pick production numbers and/or prices out of a hat. Ford Motor Company is much more capable of receiving accurate signals for an increased demand in cars, and acting on such information, than Joseph Stalin ever could be.

In many exceptional instances, an individual's unique knowledge may even lead to value *creation* within a society, such as the cases of innovation and invention.<sup>59</sup> For something to be done *better* than it currently is, perhaps at a lower cost or with a superior implementation, is a concept which drives society forward. And for something entirely novel to be *created*, out of nothing but one's own sheer knowledge and willpower, is a concept which has marked the upward surge of mankind throughout all of history. Competition and entrepreneurship, therefore, are vital components to improve the total welfare of a civilization, and are only made possible through the free market where individuals can acquire and fully utilize their knowledge. Such avenues of value creation cannot, in any realm of possibility, be captured by the monopoly on knowledge that command economies claim through their use of central planning.<sup>60</sup> Any social order that is to develop and grow over time must not put a limit on itself, which necessarily means embracing the positive creative forces that come with liberty. It is therefore clear how, even in the short-run, restrictions to the free market necessarily prevent improvements to a society's welfare.

Though, what is less obvious is how even a minor disruption to the natural state of the free market can produce devastating ripple effects that echo throughout an entire society in the long-run, substantially reducing social welfare in comparison to what otherwise could have been.<sup>61</sup> Economic growth is exponential in nature, and so when any seemingly negligible restriction is placed on the free market that hinders short-term welfare maximization, this rapidly

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<sup>59</sup> Hayek, *The Constitution of Liberty*, 81–90.

<sup>60</sup> *Ibid.*

<sup>61</sup> *Ibid.*, 78–80.

compounds over time. When even a single transaction is prohibited in a society, all subsequent transactions that would have originated as a direct result of it are also prevented from occurring, or at the very least, made less likely to occur. And from these, even more transactions are halted, and so on. Thus ensues a regression of economic inefficiency that only gets relatively worse over time when compared to the natural free market position. Consider a hypothetical economy in which bricklayers provide materials to construction companies that, in-turn, build office spaces for insurance companies. These firms then provide insurance services to clients that directly enable them to pursue their own offerings of goods and services to others in society. Now suppose that one single bricklayer is forcefully prohibited by the government from transacting with construction companies; what would be the economic implications of this? First, there would be less total office spaces able to be built by construction companies from the decrease in material supply. This, in turn means that some insurance companies will now be unable to find adequate housing for their firm and employees, meaning less insurance services are offered, which subsequently makes less people able to securely offer goods and services to others. And the chain reaction continues to snowball throughout an entire society: those people who are unable to offer items to society make other people less able to do the same, either out of a direct dependency or out of the relatively lower welfare position they find themselves in; and so on, until the economic effects have been felt by all people.<sup>62</sup> This only gets progressively worse over time. For example, if every transaction in a society produces 1 dollar of value and directly leads to two more transactions occurring the next day, then preventing one single transaction means that an economy otherwise could have been  $2^t$  dollars larger, where  $t$  is the number of days that have passed since the transaction was prevented. In general, when each transaction directly leads

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<sup>62</sup> Hayek, "The Use of Knowledge in Society", 519.

to  $k$  spin-off transactions that each produce  $v$  units of value in unit time  $T$ , then a government policy prohibiting  $N$  of such transactions from occurring means an economy could have otherwise been  $Nvk^{t/T}$  units of value larger when the policy had not been implemented, where  $t$  is the amount of unit time that has passed since the policy was implemented. As  $t$  approaches infinity, the relative loss also approaches infinity, which will always be greater than any finite short-term gain that coercion could have provided a society. In other words, a free market economy is always in the collective's long-term best interest. This is not in any way to suggest that a free market economy does not face disruptions from time to time. It is rather to state, however, the obvious fact that *all* government intervention in an economy, whether in the form of mandates or restrictions, necessarily constitute such disruptions that always produce suboptimal human welfare in the long-run.

## Responsibility

From a consequentialist perspective, the right to property innately follows from the right to liberty, as it did with natural rights theory. As Hayek writes, "Liberty not only means that the individual has both the opportunity and the burden of choice; it also means that he must bear the consequences of his actions... A free society will not function or maintain itself unless its members regard it as right that each individual occupy the position that results from his action and accept it as due to his own action."<sup>63</sup> That is to say, without strong property rights, people lack an appropriate incentive structure to best utilize their knowledge in service to others within a society. Without social norms or rules that render an individual solely responsible for their own actions, people will not enjoy the full benefits of their hard-work and will not suffer the full

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<sup>63</sup> Hayek, *The Constitution of Liberty*, 133.

consequences of their poor decision-making, which threatens the very fabric of civilization itself. The liberty that is so necessary to push a society forward becomes virtually useless when individuals are not motivated to do so. Social order was founded on a respect for property rights (see [Emergence Of Social Order](#)), and as those rights are stripped away, social order gradually degenerates towards this original anarchic position, where every social interaction is marked as a collective action problem.

If people are entirely unable to own property and legitimately call something their own, what incentives do they possess to create something new and share it with the world? What incentives do they have to improve on something that already exists in society? What are their motivations for hard work, honesty, and quality if it is guaranteed that individuals will always receive the same guaranteed outcome? More generally, what are the economic reasons why one would want to provide utility to a complete stranger if they would receive nothing in exchange for it? Invention, innovation and hard work are all activities that impose costs onto an individual. If these behaviors generate no positive benefits to offset such costs, rational individuals will always choose to avoid such activities. Therefore, property rights are precisely what give people an incentive to make themselves useful to complete strangers and to truly care about the welfare of others in society; they make individuals interdependent on one another. Property rights are the glue that holds society together; if they entirely disappear, so too does voluntary cooperation; condemning a society to return to the State of Nature. Of course, a laissez-faire capitalist social order could spontaneously emerge from anarchy with an innate respect for property rights, given the long-term mutual benefits that cooperation brings (see [Cooperation in Anarchy](#)). Though, in an alternative return to social order without property rights, individuals could be coerced to work in ways that an authoritarian government arbitrarily deems appropriate; assuming such a state

can be successfully formed in anarchy. Nevertheless, it was shown in [Choice](#) and [Markets](#) that when individual liberty is interfered with, so too is the use of knowledge in society, which necessarily decreases human welfare relative to what it could have been when freedom rings. Therefore, the optimal position for human welfare maximization in a society is the precise recognition of both individual rights to liberty and property, as societies that deny either of these factors necessarily produce comparatively worse human welfare outcomes by limiting the transmission of knowledge in society.

However, property rights need not be binary; they may sometimes only be “partially” recognized by a social order, where private ownership is limited to some percentage of property or is burdened in ways that conform to arbitrary social standards. This is a relatively better set of policies than a social order with absolutely no property rights, but it succumbs to the exact same flaw. In general, when the costs of a project outweigh its benefits, individuals will not pursue the project. Further, when property rights are not *fully* recognized, benefits of a project can only be reduced from what they otherwise would be under full property rights. As the benefits of potential projects decrease, people become less attracted to pursue them, meaning many projects will be abandoned despite a clear demand for them being present in society. Under such circumstances, human welfare is relatively decreased compared to a system of full property rights because people become increasingly unwilling to utilize their knowledge to benefit others as their own rewards from such work are stripped away. Any seizure of property private, whether full or partial in nature, necessarily makes society relatively worse off in the long-run.

Consequently, in order for a social order to fully maximize human welfare, it must recognize strong individual rights to life, liberty, and property to permit and incentivize the full use of one’s knowledge in benefitting society.

## Government

From these consequentialist arguments, the optimal role of government is strictly limited to defending individual rights to life, liberty, and property, so as to facilitate free markets and open choice that, in turn, produce the greatest human welfare in a society from both individual and collectivist perspectives. When an individual is wronged with respect to their rights, it is also the role of government to collect restitution and compensation owed for such damages, so as to restore an individual's state of entitlement and to simultaneously pose a credible threat to other possible offenders that decentivzes such vicious behaviors from occurring in the future. These operations are precisely inline with the defining characteristics of a laissez-faire capitalist social order that respects strong individual rights.

As was previously shown in [\*Emergence Of Social Order\*](#), the State can spontaneously develop from anarchy as a market good in two different forms: one with legitimate territorial ownership over the land which it services and one without such ownership. It was then discussed that a market State without territorial ownership runs into significant issues from its inability to reliably provide security services that are largely classified as non-excludable in nature. However, it was concluded that the market State with territorial ownership does not face this problem since, as part of its entirely voluntary contract with clients, it can charge recurring fees for land usage to fund public goods. Such a market State is also able to legitimately use force to collect such funds through a morally permissible enforcement of its own property rights. A market State without territorial ownership can also use coercion to forcefully collect funding for its services, but it would no longer be classified as a market good under such circumstances. This subsequently renders such a state morally impermissible, as discussed in [\*Morality of Social Order\*](#). Nevertheless, the market State with territorial ownership is feasible, morally permissible,



and has now been shown to produce the best outcomes based on the consequentialist arguments for individual rights that were outlined in this section. This makes laissez-faire capitalism the optimal social order, serving as a model that existing societies ought to implement.

One interesting implication of the State existing as a market good is that it would be competitive on a global scale, while still being locally monopolized for individual territories. If social orders allow for migration, then individuals will naturally flock to societies that have the “best” governments, taking their market contributions and tax dollars with them. This would constantly put economic pressure on states to always do better than their competition. Though as previously mentioned, the optimal state is one that limits its operations to the pure defense and enforcement of individual rights; this combination was shown to produce maximal human welfare for both individuals and the collective alike. Therefore, competing governments around the world will become increasingly libertarian in both social and economic policy over time to attract a larger population of residents, increase market contributions, and subsequently maximize tax revenues. Governments will be continually pressured into building up defense and enforcement capabilities, loosening social and economic regulations, and lowering tax rates for residents. Under perfect competition, government operations are exclusively limited to the defense and enforcement of individual rights, with the tax rate charged being continually driven down to the minimal amount necessary to fund such public goods.

## Conclusion

In this thesis, I argued that the optimal social order is a form of laissez-faire capitalism where the State develops as a market good. I made this claim on the basis that a laissez-faire capitalist social order is feasible, morally permissible, and produces the best consequences. First, I showed that such a laissez-faire capitalist social order spontaneously emerges from the State of Nature, with the institutions of government being a mere product of market forces. Then, I defended a theory of natural rights on the basis that persons are normatively separate, before showing how a laissez-faire capitalist social order is uniquely in compliance with these universal moral standards of conduct that predate the institution of any government. Finally, I argued that the key tenets of capitalism - strong individual rights to life, liberty, and property - produce maximal human welfare for both the individual and collective alike, before such conclusions were translated into a foundation for limited government. Cumulatively, these arguments served to fortify libertarian political philosophy and demonstrated that laissez-faire capitalism is the optimal form of social order.

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