The Voluntary City
Economics, Cognition, and Society

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What should government do? What should it leave to others? This debate, though not always articulated, is as old as settled societies, but it has been reinvigorated by the collapse of socialism and by the privatization of state sectors. It is likely to rage throughout the twenty-first century, producing a contraction of the state, just as the first three-quarters of the twentieth century saw the state’s expansion. An overview of history shows that this waxing and waning of the state is a recurrent pattern.

It ought to be possible to define the state’s role in absolute terms, applicable anywhere at any time. The argument, as I used to present it to Margaret Thatcher when she was prime minister, runs as follows. The state is and always will be inefficient at doing things. Hence, its activities ought to be confined to those activities that must be done but that cannot be done by the people themselves. As many of the chapters in this book illustrate the people can often do for themselves more than is thought they can do, yet history teaches that, on the whole, the role of the state has not been defined by any sensible account of what it ought to do but rather by its capacity. If the state can, it nearly always does.

The ancient theocratic states, in which divine as well as secular powers were embodied in the monarch, did more or less everything of importance. The pharaohs of Egypt, for instance, ran trading expeditions to forward their immense public works programs. And the Old Testament shows King Solomon, who did not claim divinity but was a powerful ruler by the standards of his time and place, taking charge of the importation of scarce materials and the recruitment of skilled workmen. In due course, however, nontheocratic societies emerged in
self-governing towns on the eastern Mediterranean littoral and in Greece that were characterized by a large private sector, by a limited central authority, and often by rudimentary democracy. In ancient Greece, the city authorities, landowners, and merchants worked together to establish overseas colonies, which in turn flourished and became independent self-governing cities. Prosperity was usually linked with a limited state and oligarchic democracy.

When the Roman Empire in the West disintegrated, the ensuing Dark Ages saw state functions assumed by powerful private individuals or defensible cities. Hundreds of local mints, for instance, issued their own coinages, which rose or fell according to their integrity and interestingly were often run by archbishops or bishops (presumably to confer some credibility to the implicit promise of the mints not to debase the currency). The so-called feudal system, often used as a synonym for backwardness, was in fact a series of ingenious devices to fill the power vacuum left by the fall of Rome. The king, who lacked the means to govern wide territories effectively, divided them among his tenants in chief, who provided units for his army and certain cash dues in return for the right to administer justice, control local government, and supervise towns. Such towns paid to run their own markets and, if big enough, were incorporated as cities and had a charter from the king listing their privileges.

The corporation is one of the most important inventions in history. A small-scale alternative to the state for many purposes, it has some of the legal characteristics of the individual but is also perpetual, protean, and ubiquitous—evident by the fact that it is still in universal use today after a millennium and a half of service. The English developed it, both in legal theory and in practice, as a means to get things done. They also practiced the principle of delegation. In Norman times, the king delegated immense powers to the bishop of Durham in the North, the earls of Chester in the Northwest, and the Marcher lords on the Welsh frontier. These potentates had their own miniature governments or councils to strive to ensure law and order, to raise taxes, and to build public works, as well as to defend their inhabitants. In the more settled parts of the country, landowners and responsible clerics were appointed justices of the peace (JPs), who met quarterly—or more often if required—to try cases, order public works, and deal with any business that arose. The system, which historians have termed “self-government by the king's command,” was on the whole efficient and certainly cheap, for JPs were never paid. Until the third quarter of the nineteenth century, quarter sessions were still the main instrument of local government in England and Wales, and they cost the taxpayer virtually nothing.
As the first signs of capitalism emerged and it became possible to raise comparatively large sums for investment in major projects, bold men—the term used was *merchant adventurers*—pooled their resources to buy ships and hire men for overseas ventures. In England in particular (and to a lesser extent in France and the Netherlands), the private sector thus played what was often a predominant part in foreign and colonial policy. In exploring and exploiting the New World, Spain and Portugal, which had no middle class or capital market, employed all the resources of the state to penetrate Latin America. In England, the state played only a minor role. The process began in Ireland, where entrepreneurs known as “undertakers” were allotted the lands of the “wild Irish” and undertook to settle them with former soldiers turned farmers. That was how Ulster was colonized by Protestants. A typical adventurer was Sir Walter Raleigh, who made a good deal of money from his settlements in Ireland and then invested it in the first transatlantic colony at Roanoke in what is now North Carolina. The venture failed, but valuable lessons were learned. A more profitable expedition was Sir Francis Drake’s voyage around the world, in which Queen Elizabeth was a minority shareholder, investing one ship and stores. This voyage was one of the great financial coups of history. Partners received forty-seven pounds sterling for every pound invested. The queen’s share was enough to pay off England’s entire foreign debt and still leave forty-two thousand pounds for investing in the Levant Company. This company was one of a number of semiprivate trading enterprises that laid the foundations of the future British Empire, which at one time covered a quarter of the surface of the globe. I call them *semiprivate* because they operated under royal charters that gave them legal privileges and in some cases monopolies. As they became more important and actually administered foreign territory, they worked in conjunction with the state. The largest was the East India Company, which ran English territories in India for 250 years. It had its own system of government, its own administrative service, and its own army. Lord Clive, victor of the famous Battle of Plassey in 1759, was not a servant of the state but of the company. It was only in the 1870s that the company was taken over by the state and Disraeli made Queen Victoria empress of India.

More important because more durable was the creation of the thirteen colonies of North America. The state had very little to do with this process, which was to change world history, beyond giving charters to the various companies. The Jamestown settlement of 1610 was run by the Virginia Company, under Lord De La Ware (or “Delaware,” as they wrote it). Ten years later the company granted eighty thousand acres and fishing rights to the Pilgrims of the *Mayflower*. All the early settle-
ments were conducted by private enterprise under distant and irregular state supervision; this was another case of "self-government by the king’s command." John Winthrop had been a justice of the peace in England, so he understood the system well. The colonies drew up their own constitutions, using the English practice as a rough model, and created their own elected assemblies. The first contested election in the New World was held as early as 1637, without any reference to the English government. Toward the end of the seventeenth century, the English state, growing stronger, began to realize the potential wealth of the American colonies and tried to assert its authority over them, but by then it was too late. The colonies already had their own ways of doing things and their own democracies, even if the king still appointed governors. When the test finally came during the American War of Independence, the Americans could already look back on 150 years of devising their own institutions.

If we peer into the origins of English institutions, which in many cases became the exemplars for those in America, we find that success was the result of a partnership between the private sector and the Crown, often in the form of self-perpetuating, nonprofit institutions. This arrangement worked particularly well for schools and university colleges. Eton College, for instance, was founded by Henry VI in the fifteenth century but was thereafter run by a corporate body under a provost, himself appointed by the Crown. Many Oxford and Cambridge colleges operated a similar system, a partnership between the fellows and the Crown, with the fellows making virtually all the decisions but with the Crown sometimes retaining powers of appointment to college headships (e.g., the dean of Christ Church, Oxford, and the provost of King’s College, Cambridge). The American university system evolved in a similar manner, though the role of the Crown was necessarily smaller and eventually vanished.

This system of private ownership or management of institutions forming the basic infrastructure of the country, sometimes in partnership with the state, reached its maturity in the eighteenth century. The power of the state was minute, or, rather, much of it was delegated to a variety of institutions and individuals. In a famous essay pointing out the pretensions of economists who argued that the private provision of lighthouses was impossible, Ronald Coase showed that private provision had long been the norm in Britain under the auspices of Trinity House (see Alexander Tabarrok’s epilogue [chap. 15] for more on the pretensions of economists). Trinity House was just one example of how the public creation of private institutions operated to improve
society. Schools, colleges, town corporations, hospitals, workhouses, owners of private army regiments, the Royal Exchange (which ran the capital market), and owner-builders of roads and canals (the king also owned a number of roads in his private capacity) provide many other examples of a similar beneficial process. Private acts of Parliament were an important part of this history. As Stephen Davies discusses in chapter 2, private acts of Parliament authorized, for instance, the building of turnpikes, canals, urban developments, and later railways in a way that allowed progress without unduly restricting rights to property (see also Daniel Klein's chap. 4 on the provision of turnpikes in the United States). The Industrial Revolution of the period 1760–80, which saw the world's first acceleration into self-sustaining economic growth, was entirely the work of private enterprise. The state had nothing to do with it. Lord North, prime minister during the crucial period, went to his grave without realizing that he had presided over one of the most important developments in history. This "mixed economy" system of doing things—in which individuals and corporations played the major role—was adopted, improved, and made more efficient in the United States.

However, what the state can do, it usually will do—unless firmly resisted by powerful interests. The state began to expand, at first hesitantly and then with increasing confidence as communications improved; national wealth and the state's share of it increased; and democratic public opinions, spurred by a free press, emerged to make demands for human betterment that could not be supplied by the private sector. The nineteenth century saw the state in Britain and the United States running, for the first time, schools, hospitals, and road systems, as well as regulating factories and other places of work. These changes laid the foundations of the Leviathan state of the twentieth century. Great wars speeded the process. The Napoleonic Wars brought, for Britain, the first income tax, which belatedly came to the United States a century later. The income tax proved the greatest engine of state activity the world had ever seen. The American Civil War effectively created an expanding, omnicompetent federal government and abolished much of the delegated authority of states' rights. World War I saw the state involve itself deeply in the economy, taking over and building factories and infrastructure and assuming powers that were later to be exercised in peacetime, permanently. World War II pushed the process further and promoted what were to become welfare states, protecting or oppressing the individual from the cradle to the grave. The assumption now subtly changed. Whatever the state could do it should do. In the
democracies, advocates of the expanding state were impelled not so much by the lust for power as by a quasi-religious faith in the virtues of the state. The state was morally superior to private enterprise because it was not motivated by the desire for profits, and it was a source of greater wisdom because it could mobilize all the resources of the intelligentsia. In the 1950s, the leading proponent of the state in Britain, Professor Richard Titmuss of the London School of Economics, argued that the state had a positive duty to enter all areas of life the instant it was in a position to do so. He gave an example: “As soon as we can control the weather, the government must have a weather policy.”

The contraction of the state during the last quarter of the twentieth century came about almost entirely on an empirical basis. One factor was the abysmal failure of the state in its most expanded form—the command economy of the Soviet Union (and of its many imitations in Eastern Europe, Africa, Asia, and Latin America). Other factors were the rising cost and increasing inefficiency of the public sector in Western democracies and the realization that the state was performing badly even in its core duties. In the West, the big metropolitan city was seen as the arena where the state had failed most conspicuously: poor schools, bad but expensive housing, congested traffic, inadequate public services, rising crime, race riots, high cost of living, unemployment, and shortages in skilled labor—all combining to make life in the big city uncomfortable, expensive, and dangerous.

The privatization programs of the 1980s, which still continue, served to open a wide-ranging debate on the role and limits of the state and the extent to which cooperative or private enterprise could take over activities where the state was manifestly performing badly. This volume of essays by distinguished scholars is an important contribution to this debate, and I commend it to everyone who takes a serious interest in trying to make life better for the average citizen. What I particularly like about the contributions is the absence of ideology. There is, for instance, no assumption that profit making or individual enrichment is essential to efficiency in providing services. Quite the contrary, indeed. Nonprofit organizations, driven by altruism and the noble desire to serve the public, have an important role in replacing the state, as in the past. Likewise, there is a case for examining opportunities for the private sector and the state to cooperate in projects or, alternatively, to compete with each other to give the public the best possible deal. What is particularly valuable in the present debate is its freedom: nothing is ruled out on principle, all propositions are seen as worth exploring, and experiment is at the forefront of all activity.
We learned many lessons the hard way in the twentieth century. I suspect that the twenty-first is going to be an exciting period in which our increased wisdom will be applied in novel and surprising ways, improving the quality of our lives and offering matchless opportunities for able men and women to serve humanity. We must put aside all the old prejudices about the state, on the one hand, and about capitalism, on the other. Let us forget about the ideologies of the twentieth century. But that does not mean we must discourage ideas. Now is a time for imagination and fresh thinking. Every concept is worth exploring. The only tests must be: Does it work? Can it be made to work? I am confident—and I envy those who will live to see the change—that in fifty years’ time we will be running things, not least our cities, towns, and communities, in radically different ways, which will respond much more closely to human needs than do our present methods. That world will not be Utopia, but it will be, to use the favorite term of the Victorians, an “improvement.” This book is its signpost.