The Folly of Libertarianism:  
The Ugly Side of Our Economic Savior

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In the past century, we have seen the rise and fall of many national economic policies. In fact, the 20th century was most tumultuous economic century for the United States. Volumes of books have been and can continue to be written on these historical topics: the trust-busting of the early 20th century, the credit extension of the 1920s, the New Deal and the Great Society of the 30s, 40s, and 50s, the continuance of Keynesianism through the 60s and 70s, and finally, the advance of supply-side economics and the monetarist ideas of the 80s, 90s, and now.

Each of these economic systems and policies has experienced a rise in popularity and general acceptance within the academic elite until extenuating circumstances have poked holes in their respective theories. The great depression thrashed the idea of easy-credit expansion. The “stagflation” of the 1970s dealt Keynesianism a critical blow, giving rise to the monetarist policies of men like Milton Freidman and Alan Greenspan.

However, we are now in the midst of the collapse of the monetarist economic theory. Fractional reserve banking, a free-floating currency, and overextension of credit has plunged the United States economy into a recession that can be felt all over the world. The home mortgage crisis has combined itself with the rising costs of energy and the “war on terrorism,” creating a seemingly gigantic whole that the United States may never be able to climb out of. Reckless loans and constant inflation has pushed the economy to the point where the Monetarist’s day of reckoning has come. Extenuating economic circumstances have created leaks within the boat of Monetarist economic theory.
As with every other paradigm shift, the *de facto* next-in-line economic theory has already manifested itself. Libertarianism has received the nod from mainstream academia as the up and coming theory to replace Monetarism. Libertarianism has also gained a cult following in the popular and political realm. Political figures such as Ron Paul and even our beloved Ludwig von Mises are receiving unprecedented amounts of fame and notoriety within American Society. Many people, from the realms of higher education to the depths of economic despair, see Libertarianism as the savior of the American economy.

Libertarianism has certainly advanced itself on the table of academia and pop culture, but is this idea of economic liberty the savior we believe it to be? If we are going to acknowledge Libertarianism as the economic theory of choice, we must try to do our best to avoid the big mistake previous economic thinkers made— they all assumed they were right. They refused to consider their theories critically. Before we anoint Libertarianism, we must make sure that it is the correct political-economic theory to be applied in the United States of America.

In order to do this, we must first analyze Libertarian ideas and potential issues from a negative perspective. Furthermore, we must decide whether these issues can be dealt with and practically streamlined into the American society. Decentralization of power, checks on power, and the role of government seem to be problematic from the Libertarian viewpoint. While Libertarianism seems to be the savior of our economic problems, we must be wary of Libertarianism’s real world application, especially within the American socio-political framework.
If we really want to know how anarcho-capitalism actually functions in a society, we must turn our attention to the underground economies that exist outside the laws of established governments. In the open and free market, there are no rules. There is no bureaucrat looking over the producer’s shoulder to make sure the quality of his product is up to par. There are no IRS agents trying to seize your property should you make a mistake on your taxes. There are no politicians creating economic disincentives for entrepreneurs. It seems like an economic utopia. But is it?

The issue Libertarians tend to trip over is the difference between Authority and Power. In a free-market, anarchic system, there is no state-mandated monopoly of violence. Thus, no one group has any complete authority. However, this does not mean that no one wields any power. In government-run society, those with the most power are the decision-makers within the government. In a free market society, the most powerful people or institutions are the ones that run the largest and most profitable companies. In essence, they are ones with the most money. They may not have the authority or right to forcibly coerce economic policies, but without a government, they have the ability to do just that. What is to stop these people or organizations from simply hiring mercenaries to enforce their own personal economic policies?

Murray Rothbard writes in his essay, *Myth and Truth about Libertarianism*, that “The state is the only social institution which is able to extract its income and wealth by coercion.” Rothbard continues to explain that if you remove the State from society, you essentially do away with “the only institution which can use the revenue from... organized theft to presume to control and regulate people’s lives and property.” This simply isn’t true! The abolition of the State only removes *one* institution that uses
revenue from theft to gain and maintain control. The removal of the State creates a power vacuum into which another political entity can take its place. This is exactly how organized crime rackets operate. Mob “protection payments” are nothing more than a tax levied on the people that is enforced via threat of violence. There is no difference between the State and organized crime in this fashion. In fact, they are one and the same. There has never been, nor will there ever be, an apolitical society. Whenever a power vacuum is present, someone takes the initiative and steps in.

If the Libertarian wishes to advocate for an anarcho-capitalist society, he must come up with a viable and practical political theory in order to account for the vacuum of power within their society. The Libertarian answer to this problem is the natural establishment of free-market courts that would provide a system of civil arbitrage for a fee. These are not contract courts, but criminal and civil courts. They will only consider cases that are dealing with private property infringement on a person or their belongings. These courts will have an economic incentive to provide an honest and fair hearing for all complaints. If the people’s rights to private property and free trade are being infringed upon, the courts that provide the most protection of these rights will be the most profitable. This idea seems valid until you analyze it within the form of Power vs. Authority. The people will give these courts the authority to make arbitration decisions, but the courts are not given the power to enforce these decisions. Economic incentive does not translate into economic obligation.

For example, consider this situation: A multinational company, “Business X” is accused by the citizens of a small town in for unfair business practices. These people claim that this company is hiring thugs to force them to buy products from “Business X”
under the threat of violence. The citizens of the town have three options from which they can either choose one or all three. They can bring this company to court, hire their own a police force for protection, or they can bad mouth the company in hopes that people will stop purchasing from them.

If the citizens take their case to the best court available to them, they run into problems quite quickly. Why do we assume that “Business X” is actually going to show up to court? Even if “Business X” is convicted in absentee, what is going to make “Business X” yield to the decision of the court? Also, what is to prevent “Business X” from refusing to go to the court the citizens want and demanding that they go to a more sympathetic court (i.e. one that is on their company payroll)?

Hiring a private police force is another option in this scenario. Yet again, we are making crucial assumptions that go too far. What is to stop “Business X” from simply buying out the police force? Also, what happens if “Business X” decides to lash out with violence? How can a small town have the resources to actually go to war with a multi-national corporation? Why can’t a company representative call up the boss of the private police force and essentially say, “Things will get ugly if you stay here. However, we’ll double what they’re paying you if you pack up and go home.”?

These townspeople could also inform others about the immoral actions of “Business X.” If they decide to do this, how are they actually going to make a dent in the “Business X’s” finances? “Business X” is a multinational corporation. How are they going to tell people on the other side of the world to boycott “Business X”? The common Libertarian answer would be that ethics review companies would publish news about the situation. This response fails for a few reasons.
Firstly, they assume that people will actually care enough to boycott “Business X.” It seems far more likely that people will continue to buy goods from the cheapest vendor regardless of how that company treats people on the other side of the world. In this instance, Libertarians fail to acknowledge the power of apathy and the overall selfish nature of mankind.

Second, what is to stop “Business X” from convincing the reporter from the ethics review company to give a positive review of “Business X” by way of a bribe or a threat of violence?

The only way for the citizens of that small town to take on “Business X” is to have a judge or a court make a decision concerning the matter and then bequeath that litigation company the ability to enforce it’s decision. The townspeople need what is called a “third party enforcer.”

A third party enforcer is also needed to prevent cartels from hampering the market. The Libertarian would deny the necessity of a third party enforcer in this instance, saying that the incentive to increase output would eventually overcome the cartel members, essentially dissolving the cartel. But the anarcho-capitalist makes the mistake of believing that cartels will always inherently implode and go back to some form of differentiated competitive market. Such is not necessarily the case, especially in a pure free market like the illegal black market.

Let us consider the Medellin and Cali Cartels, the infamous Colombian cocaine cartels of the 1980’s. Five major players, Pablo Escobár Gaviria, Jorge Luis Ochoa Vásquez, José Gonzálo Rodríguez Gacha, Gilberto Rodríguez Orejuela, and José Santa Cruz Londoño controlled almost 80% of Colombia’s cocaine exports at that time. In an
effort to become more prosperous, these five men organized their cocaine “companies” into a cartels. Escobár, Ochoa, and Rodríguez formed the Medellin Cartel and Orejuela and Santa Cruz constituted the Cali Cartel. These two Cartels usually worked together, forming one big cartel. They often engaged in joint production ventures, collaborated on cocaine insurance shipments, and they even worked together in setting up a distribution network in Western Europe. These cartels also pooled their enormous resources to work within the political structure of Colombia. They jointly planned assassinations, blocked the extradition of drug traffickers, hampered the criminal justice system, and even went so far as to carry out punitive paramilitary expeditions on revolutionary members of the political far left.¹

But not each interaction between these two Cartels proved to be collusive. When the allure of greater profits through increased production finally became too much, instead of simply competing with each other on an economic playing field, they went to war. Pablo Escobár consolidated his control of the Medellin through violence and engaged in violent expansionary tactics against the Cali Cartel, seeking to move into the New York City market, traditionally a Cali controlled area. By the time Escobár was killed in 1992, the Medellin Cartel had become one of, if not, the world’s most powerful cocaine producers and traffickers.

The actions of the Columbian drug cartels begs this question: If a third party enforcer had stepped in and prevented the collusion of these cocaine companies before they grew too powerful, could the violence have been prevented? The fact of the matter is that while Cartels inherently have the incentive to cheat and begin to compete against

each other, they will not necessarily compete in an ideal manner. Some may resort to price or quality competition. Others may resort to violence in order to clear their competitors out of the market.

The third party enforcer is needed to defend against the larger aggressor as well as the smaller aggressor. Peter T. Leeson of West Virginia University attempted to tackle some of these issues of contract and dispute enforcement.² He noted that most contracts can be enforced without a third party and without any form of coercion. Societal ostracism, injured reputation, and boycotts are some of the many passive ways that economic contracts are enforced without coercion. However, Leeson makes two fatal assumptions within his own analysis. He assumes adequate knowledge of the contract breech and responsible reactions. He assumes that enough people will know what happened, who was at fault within that civil dispute, and then act accordingly. He also assumes that people will keep themselves updated with the news concerning contract agreements. The fact that the contractual knowledge within the marketplace isn’t perfect is what allows confidence men to make careers out of fraudulent actions. Passive methods of contract enforcement (ostracism, reputation injury, etc) may keep the average businessman in line, but how will it stop the con-man? If people refuse to be suckered by his schemes, he will simply move on to a different market that has no idea of who he is. The only thing that will stop him is the threat of violence.

The threat of violence is the only thing that can force anyone to do anything.

Economic incentive provides exactly what it says—incentive. Incentive does not translate into obligation. If these courts are to provide any sort of actual arbitration in civic

matters, they must be given some kind of action pertaining to violence. They must be given both authority and power. The courts must be given both the authority to make a decision and the power to actually enforce it, i.e. violence.

Once again, we come to the difference between authority and power. Once the courts are given the authority and the ability to enforce their decisions, they can actually function as courts. However, in doing so, these political entities themselves become the very things that Libertarians have thrown out. The courts have become governments! If courts are given the right of coercion to enforce their decisions, they are no different than governments. People have handed over to the courts both the authority and the power to settle civil and economic disputes. The courts become a form of limited government. Pure anarcho-capitalism ceases to exist at this point. There is no pure freedom of the individual. There is a governmental order found within the 3rd party contract enforcers.

With courts being able to enforce their decisions via the threat of violence, this makes them no different than governments. However, there is a slight nuance to this argument. Instead of having one centralized government with the monopoly on violence, there would be many “governments,” with each court acting as if it had a monopoly on violence. Instead of getting one central government, you would have many little governments. This leads directly to our next problem.

How should conflicting court decisions be handled? For example, two people, Jack and Tom, bring their civil dispute to court “A.” Court “A” rules in favor of Jack, but Tom then decides to appeal to a different court, court “B”, which rules in favor of Tom. What results is an arbitralional impasse. How is such a dispute then to be settled?
There are a few options available to rectify this situation. The first option is that Jack and Tom can individually continue to search for another court. This, however, is futile in that they each with appeal to a different court if they lose. The next option is that Jack and Tom can personally settle their dispute by resorting to violence. This option is clearly not the best option, but we cannot rule it out. The third option is that the two courts themselves can resort to violence in order to settle the dispute. This option is unlikely to occur. The fourth and final option is to appeal to “higher” court. In an effort to avoid violence, Jack and Tom will most likely choose the 4th option.

This notion of a higher appellate court immediately runs into one glaring problem: the issue of endless appeals. If Jack and Tom’s case is going to be resolved, they must agree to acquiesce to that court’s decision before they enter arbitration. However, this agreement is useless unless it can actually be enforced. This brings to light the question of who is going to enforce the agreement of a final appeal.

Jack or Tom can individually enforce this agreement, but it is rather foolish to have an arbiter make a decision for you and then leave you to enforce the decision. If that is the case, why waste time with the arbitrating court? If you have to enforce the decision yourself, you might as well skip the court, make your own decision, and then enforce your own decision. You would be saving yourself a lot of time and energy.

The other option is to rely on the other courts to enforce the notion of the final appeal. These other courts could simply refuse to hear the case because the appellate court has already made a ruling. This seems like the proper response until it is examined further. There are two problems with this option.
First, the idea that these other free-market courts would stand on principle and refuse to hear the case is contrary to their economic incentives. They’re in the business of making money by hearing court cases. They’re not the ones to enforce a restriction on any further appeals. There is no economic incentive for them to refuse to hear a case that has already been decided in an appellate court.

Second, even if every single free-market agreed to not hear the case, the problem of enforcement has still not been dealt with. Although Jack or Tom is unable to appeal the case to anyone else, there is still no force in place to actually make them bow to the decision of the court. The two belligerents are yet again left to themselves for enforcement, thus bringing us right back to the first very problem of “why even bother with the courts” we encountered.

The fact of the matter is that these appellate courts can only function if they can enforce their decision (giving them creditability) and deny any further appeals (to prevent the endless appeals process). Both of these abilities required the threat of violence to enforce, or else they are completely meaningless and empty. They become nothing more than authoritative threats made without any power. The appellate courts must be responsible for enforcing a denial of any further appeals, and this is only done by the means of the threat of violence. But who is the appellate court threatening when they put a ban on any further appeals? They are not threatening Jack or Tom, but rather all the other appellate courts. In order to end the possibility of endless appeals, the appellate court must threaten (and perhaps even apply) other courts with violence if they receive a case that they have already ruled on.
This mix of power and authority is dangerous because it is the first step towards centralized power. An appellate court must have the authority and the power to make a final decision on a case, which is only possible if they have both the authority and the power to deny an appeal and to enforce this denial. If a court has the power and the authority to do this, all the other non-appellate courts are conceding some of their power to this higher court. They are essentially agreeing, under the threat of violence, to not accept any appeals from the appellate court’s decision. These non-appellate courts are marching to the beat of the appellate court. Final power and authority just jumped from totally decentralized pockets of judicial authority to a less decentralized group of courts. Power and authority has been handed over from the hands of “the many” to the hands of “the not-as-many.”

Not to mention that we can run into the problem of conflicting appellate courts. For example, “appellate court A” makes a decision on Jack and Tom’s case and declares a ban on any further appeals. However, because Jack lost the case, he decides to break the rules and take his case to “appellate court B,” which rules in favor of Jack and makes a declaration against any further appeals. The options to resolve this issue are almost exactly the same as the options that had been previously mentioned, except that neither Jack nor Tom can take their case to another court. They can either settle their problems personally by violence, the courts themselves can settle their conflicting rulings via violence, or Jack, Tom, and both the appellate courts can appeal to an even higher court. This process will continue until one court reigns supreme as the final authority. Now instead of power being in the hands of “the not-as-many,” it is in the hands of “the few.”
Such a combination of authority and power in the judicial system is a dangerous first step towards a centralized government.

Once the courts are granted the ability to enforce their decisions, they become governments. Anarcho-Capitalism in reality is nothing more than de-centralized governments. However, history has taught us that decentralization of political power raises problems concerning national defense. It is much easier for an army to conquer a divided nation or region than a politically unified one. One by one the city-states of Ancient Sumeria fell to the Babylonians. The city-states of Greece were easily wiped aside by the Roman Legions. Genghis Khan’s hordes rode through the principalities and fiefdoms of modern day India and the Middle East. The United States continuously made mince-meat of the Native American tribes. Imperial Japan blew right through the nations in the Pacific Far East; the historical precedent is tremendous. If a pure libertarian society is adopted, our doors are wide open to conquest.

The standard libertarian response is the belief that communities will join together and unite their military forces to repel such invasions. Such a belief is not only fallacious, it’s historically ridiculous. If such a confederacy actually occurs, which is a rarity in and of itself, it is never successful. There have only been two instances where a community has ever joined together and victoriously defeated a common enemy: The American Colonials against the English in 1783 and the Greeks against the Persian Empire in 499 B.C. However, if we delve deeper, neither of these examples actually pans out.

The American colonials did in fact defeat the English in the American Revolution, but we must put their victory in perspective. These colonies were not purely independent and decentralized groups that banded together against a common enemy.
There was a great deal of organization within the colonial society. The Continental Congress established the Continental Army (led by George Washington), drew up the Declaration of Independence, sent out emissaries and diplomats to other countries, and even designed the new colonial government founded within the Articles of Confederation. During the war, they were a group of people that were indeed centrally governed. Let us also not forget that the American Colonials had help in their plight against the British. French advisors and eventually French armed forces came to the aid of the Americans and helped them fight off the British. This was not a politically decentralized people fighting against an oppressive, centralized government.

As for the Greeks, do not, even for second, believe that this was the great coming together of individual city-states to repel the tyrannical forces of Persia. It was two centralized political powerhouses, Athens and Sparta, who lead the charge. Athens had control of northern Greece, calling themselves the Delian League, while Sparta had control of southern Greece under the guise of the Peloponnesian League. This was not a banding together of communities, it was a temporary alliance of two centralized authorities. It was so temporary that these two forces actually went to war against each other less than one hundred years later in 404 B.C. in what is known as the Peloponnesian War. Then after 338 B.C., Alexander the Great completely took over the Greek region. Why didn’t the Greek city-states simply band together to resist this hostile take over? They actually did exactly that. If that is true, then why did they fail? It is because they lacked political and military hegemony. They were too busy bickering against each other. No one city-state could declare ultimate power, and because of this, each of them fell under the Macedonian juggernaut. Centralized political authority will always trump
divided political authorities in war. The Thracians and the Illyrians of Macedonia tried and failed to defend themselves against Alexander on their own. Thebes and Athens actually banded together and were utterly defeated by the one they called *Megas Alexandros*. The reasoning for this phenomenon is quite simple. Once divided, they could not stand against the political might of centralized power.

Let us continue forward with this history lesson. Soon after Alexander the Great’s empire crumbled in the wake of his death, the Romans arrived on the scene. By the end of the Second Macedonian war in 197 B.C., the Romans had permanently established themselves on Grecian soil. By 31 B.C., the Roman had completely conquered the entire ethnic nation of Greece with the victory of Octavian against Marc Antony. Divided they stood, and divided they fell.

Such historical examples do not end there. The Native Americans tried and utterly failed to resist the advance of the American state. They failed miserably because internal bickering. They could not come together and unite themselves under one military leader. The United States pummeled the Native Americans, constantly forcing them further west until there was simply no more “west” to be had.

The historical precedent is absolutely clear. Decentralized political authority is military weak and prone to conquest. It is in the nature of human beings to unite under one centralized government and to divide under decentralized governments. Humanity cannot live in a politically decentralized society. The power vacuum is too great. The adoption of Libertarianism would leave the United States completely vulnerable to invasion and subsequent conquest.
Not only would the United States be vulnerable to conquest from without, they would be vulnerable to conquest from within. In order to illustrate this weakness, I will turn to back to the example of the Columbian Drug Cartels.

Because the Colombian state was constantly at war, it has been very difficult for the Colombian government to consolidate any semblance of real power. Constantly fighting against groups such as the Fuerzas Armada Revolucionarias de Colombia (Revolutionary Armed Forces of Columbia) and the Drug Cartels has forced the Colombian government to negotiate its own sovereignty with these other political powers. The Colombian government constantly made deals and took bribes from these groups to the point where these groups, most notably the Medellin Cartel under Pablo Escobár, practically ran the country. “The Colombia state [had] neither the power nor the authority to settle social conflicts or enforce the law.” This constantly changing and violent political atmosphere has led to a complete de-centralization of power. The Columbian state really had little to no authority in areas controlled by these political groups. Thus the citizenry often turned to the political faction that they found most favorable or just took a submissive attitude towards the group that took over their local area. All of this was a result of the decentralization of political power. If one group actually had the authority and the power to control the country, none of these conflicts would’ve happened. Decentralization of political power leaves your nation open to internal divisiveness because there is no societal check on the power of these huge companies.

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Libertarianism seems like a great idea, but its political ramifications simply cannot work in the real world. A good theory is judged by its application, and when the political tenants of Libertarianism have been applied throughout history, they have failed miserably in the political realm. The United States of America cannot adopt the idea of an anarcho-capitalist society. It will not work. History and human experience has proven that such a society will not stand up to the reality of the physical world we live in.

I agree with Libertarians when they say that changes need to be made to the American system. However, I disagree when they say that an anarcho-capitalist society is the answer. It puts too much faith in the empathetic actions of an apathetic humanity, leaves the door open to faction violence, and it goes against the grain of thousands of years of political history. I strongly urge you, fellow Austrians, to seriously think twice about the idea of a Libertarian society. The government should not interfere with our economic lives, but completely doing away with a centralized authority would only create more problems than we already have. Government is a necessary evil, and the original framers of the constitution viewed as exactly that. This is why they put so many restrictions on it. Again, I beseech you all; critically examine the notion of a Libertarian society before you hail it as the savior of our time. When held under a microscope of political reality, Libertarianism falls short of the mark.