Spengler died before Hitler's invasion of Poland, so it would be Martin Heidegger's turn to pick up where Spengler left off. Though Heidegger did not share Spengler's adulation of technology, they both rejected classical Western tradition with equal ferocity, and both hailed the imminent arrival of a new dawn of "Being" that they thought the Nazis would deliver, though Heidegger lived to be disappointed. They thus rejected liberalism in all its forms: truth, beauty, and goodness would all be redefined. Heidegger retained Spengler's "metaphysical hatred," defined as the irreconcilable, irrational opposition of classes/races/civilizations/religions—in a word, nihilism, the kernel of tragedy.

Which brings us to the present and the demise of rational discourse in the public arena. The intellectual, or at least academic, heirs of the German philosophers from the turn of the last century are omnipresent on American, and more so on European, campuses, assiduously spreading the noxious miasma of "isms" shrouded in unintelligible jargon that does precious little to educate, though quite a bit to obfuscate, and worse. In truth, the Manichean thinking that pits one group against another, that justifies violence in the name of some mysterious march of history, on whose "right side" we should seek to position ourselves lest we be thought *passé,* sabotages our civilization with self-destructive ferocity. For along with Reason dies responsibility, the private realm, the individual, creativity, and indeed everything that we value. Hatred, metaphysical or otherwise, will spell not only the end of the misguided, solipsistic, self-destructive intellectuals who espouse it, but also the death of civilization and of humanity as we know it.

Juliana Geran Pilon
The Alexander Hamilton Institute for the
Study of Western Civilization

Private Governance: Creating Order in Economic and Social Life
Edward P. Stringham
New York: Oxford University Press, 2015, 296 pp.

There already exists a large and consistent literature about the virtues of private governance, a literature to which Edward Stringham himself has already contributed. His latest book, *Private Governance: Creating Order in Economic and Social Life*, partially based on previous publications, is a new study devoted to the same topic. Yet, this book is important because it is particularly useful at demonstrating that private governance works. More precisely, it is not only what is demonstrated but also how it is demonstrated that gives the book its value.

Private Governance is not an exercise in pure and abstract science of the sort practiced by mainstream economists. Rather, it is a study of institutions that arise from individuals' choices, correspond to their needs, and are adapted to each situation. To adopt such a pure and abstract approach to study private governance would be vain and useless because it would miss the main features of private governance, namely, it's adaptability and specificity. Thus, "because private governance is not a one-size-fits-all solution, research in private governance *can* analyze the various ways that parties deal with problems." "Can" and *must*, I would add. That is precisely what Stringham does in the book: he studies different examples of private governance and provides empirical evidence that, in a variety of different contexts, people devise their own (institutional and private) solutions to deal with the problems they face.

Such was the case in the 18th century, when the London Stock Exchange was created; or in the early 19th century, when "San Franciscans created a system of private police to ensure their physical security"; or, more recently, when PayPal faced massive frauds and lost huge amounts of money. Rather than waiting for a possible governmental solution, PayPal devised private solutions. Actually, all the examples given in the book confirm that it is common for individuals to not rely on state intervention—to not wait for a *deus ex machina*, to use Stringham's words, to solve their problems for them. This might surprise those who are used to government interventions and who tend to believe that markets cannot emerge and function without governments. But it has not always been like that.

Despite the book's empirical focus, it is not merely a spineless, atheoretical collection of facts, such as the type of empiricism used by the institutionalists. That would also be a serious flaw. Instead, Stringham adopts an approach that combines, in the words of George Mason University economists Peter J. Boettke and Christopher J. Coyne, "[T]he logical structure of economic reasoning with the rich institutional details of history and anthropological and sociological analysis"—an approach that also characterizes most of the recent analyses of private governance (see, for instance, *Anarchy Unbound: Why Self-Governance Works Better Than You Think* by Peter T. Leeson, and *The Social Order of the Underworld: How Prison Gangs Govern the American Penal System* by David Skarbek). In other words, Stringham uses economics to make sense of the empirical evidence.

From this perspective, *private* governance works—and one could even say works *better* than public governance—because, first, decentralized mechanisms work better than centralized ones and because, second, private governance emerges from individual choices and knowledge. As Stringham reminds us, this is the classic argument about decentralization, markets, and knowledge forwarded by Friedrich Hayek in his famous 1945 essay, "The Use of Knowledge in Society."

But decentralized knowledge alone does not explain why markets and private governance work. Someone could admit that "individuals know better" and therefore that one must rely on their particularized knowledge. But having knowledge does not necessarily mean that it will be used or, more broadly, that people will agree to cooperate. There is also the issue of incentives, which are crucial to mainstream economists. People are self-interested, and they seize opportunities to free-ride and behave opportunistically. Thus, all human interactions essentially take the form of prisoner's dilemmas.

For some, that opportunism explains why markets and decentralized mechanisms necessarily fail and why the intervention of the state—that is, external coercion—is necessary. According to the same reasoning, private governance should also fail. Yet, as Stringham's book shows, we have many compelling examples that it does not fail. It seems that individuals, even though they are self-interested, spontaneously use their particularized knowledge and cooperate with others. For instance, notes Stringham, in San Francisco during the 19th century "residents privately financed police"—that is, a public good—without realizing that "what they did was actually impossible" according to traditional economic theory. It seems that, in many cases, there is no need for coercion or, at least, there is no need for external coercion—that is, threats of force from others. People behave pro-socially, as has largely been shown by experimental economics, and they can "police" or "govern" themselves. "Individual self-governance," writes Stringham, "is one of the most important sources of governance," and it's crucial to explaining why private governance works at all.

In addition, the capacity to police oneself and the corresponding willingness to cooperate do not depend on the size of the group. This realization is important because both opponents and those who are rather favorable to private governance seem convinced that, while people may cooperate in small groups, they free-ride in large ones—what James Buchanan called a "large group dilemma." To Stringham, such a dilemma does not exist. Individuals cooperate and coordinate with each other in large groups and in small groups, as well as when they are engaged in both simple and complex transactions. Game theory may tell otherwise, admits Stringham, but "rather than using game theory to debate whether cooperation is or is not possible in relatively large advanced markets without enforcement, a more fruitful approach is to study actual markets to see how they work." For example, the history of the world's first stock exchange, created in Amsterdam in the 17th century, proves that large groups and complex transactions did not prevent cooperation. Participants devised an informal mechanism of reputation-based governance that worked even between those who did not interact repeatedly.

Finally, Stringham also explains why public institutions should not be added to—and should not replace—the private ones that already exist. This is indeed a serious question: if private governance works, and if individuals find institutional solutions to their problems, why are public institutions needed? Obviously, the only possible answer is that public governance—public institutions—would represent an improvement.

This is a twofold claim: first, that private institutions can be improved and, second, that the improvement can be brought by governments. It is not clear, however, what "improvement" and "better institutions" mean, especially if the institutions of private governance have emerged to fit the needs of the people rather than being "one-size-fits-all" solutions. The lack of a clear definition or characterization of "improvement" probably explains why opponents of private order argue that the failure of private governance justifies the intervention of the state. But that defense of public governance is fallacious, partly because certain problems are not failures of private governance. During Bernard Madoff's Ponzi scheme, for example, mechanisms of private governance existed that "easily could have prevented such fraud" but the investors themselves "*chose not to* demand them."

Additionally, it is well known that governments can fail too. Arguing that governments may solve market failures implies that governments do not fail or fail less than markets. There's no way to prove that claim. The only way to know if public governance works better than private governance is to run experiments. But once public institutions have been added, it becomes impossible to remove them. And if public institutions can't be removed, it can't be shown that they represent an improvement over private governance. Furthermore, it can also be shown that adding public governance to institutions of private governance, or replacing private governance altogether, can deteriorate the situation. Rather than helping, the state often crowds out good governance. Indeed, here's the "best" governments can do: "crowd out rules that providers of private governance would have provided; or worse, government can impose rules well beyond the optimum and thereby drag down markets"; interfere with and consequently undermine what is provided by private governance; or coerce and "strong-arm" private entities. All in all, replacing private governance with public governance is usually a net loss.

Lastly, the limitations of public governance help explain why private governance is so pervasive. In fact, individuals do not create private governing institutions only when governments are absent. Private governance also exists when there are governments. Often, we do not realize that private mechanisms are at work, and many of our problems are solved without the intervention of governments. This is the "unseen beauty" of private governance. And this is the compelling story that Stringham tells in this book.

Alain Marciano
Université de Montpellier, Faculté d'Économie